FURTHER EDUCATION TRUST FOR LEADERSHIP

MONOGRAPH

SCRIPTING THE FUTURE –

exploring potential strategic leadership responses to the marketization of English FE and vocational provision

Professor Ewart Keep – SKOPE, Oxford University

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- Preparing for the long term as well as delivering in the short term; and
- Sharing fresh ideas generously and informing practice with knowledge.

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PROFESSOR EWART KEEP

Professor Ewart Keep has been a full-time researcher on education, training and skills for 32 years, and is the director of the Centre on Skills, Knowledge and Organisational Performance (SKOPE) at the University of Oxford. He has written extensively on the impact of skills on economic performance, as well as on lifelong learning, apprenticeships, the incentives to learn, employers' attitudes towards skills and training, skills utilisation and workplace innovation, higher education policy, and the formulation and implementation of skills policy across the UK.

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FOREWORD

Dame Ruth Silver

This is an important paper which FETL is delighted to publish, in partnership with the Association of Colleges and the Centre for Skills, Knowledge and Organisational Performance (SKOPE) at Oxford University. It has a number of important messages about the complex realities with which further education leaders must now deal, but it is also steeped in a sense of where further education colleges have come from and the pressures and policies which have brought us to our present, perhaps uniquely challenging state.

More than 20 years ago, Helena Kennedy wrote in her influential report *Learning Works* that justice and equity must 'have their claim upon the arguments for educational growth' in further education alongside the demands of employers and the needs of the economy. Her report warned that increased competition in the further education sector was likely to mean colleges pursuing students who had the best chance of success and neglecting those whose needs were greatest.

Two decades on, Kennedy's warnings look prescient indeed. We have entered an era of unprecedented marketisation in the further education sector. As Professor Keep explains, FE colleges and independent training providers now operate in a set of 'inter-connected markets' though they do not do this in an unfettered way, for the government still requires colleges to fulfil part of their social purpose mission by providing 'remedial' education and acting as 'provider of last resort'. This creates a challenge for leaders who must somehow find a way to operate successfully in this new – and for some quite alien – environment, while remaining true to their values and striving to meet the needs of their community. And all of this they must manage in an incredibly tough financial environment, buffered by profound and ongoing policy turbulence and an overbearing accountability regime which has proven stubbornly resistant to reform.

Professor Keep's paper demonstrates not only the unprecedented nature of these challenges – a 'perfect storm', he says – but also the inadequate base of knowledge on which leaders can draw in responding to them. Change in the sector is so abrupt and so constant that we struggle to develop the theoretical understandings we need to make practical sense of change. There is a serious mismatch between the challenges we face as a sector and the skills and resources available to us, particularly in leadership terms. This paper is an attempt to redress this. It asks important questions about how leaders can deliver against their social and political mandate, and fulfill their role at the heart of their communities as fully and effectively as possible, within this highly competitive marketised environment.

Further education has always had a strong sense of social purpose. It is part of the origin story of the sector. The Kennedy report detected a serious erosion of this tradition. Two decades on, it is clear that while many providers would still put social justice high on their list of organizational priorities, the economic imperative is much stronger than the ethical or social imperative in the work of further education. As Professor Keep acknowledges, FE is not helped by the failure of government to articulate a clear vision for the sector's future or to be clear or consistent in its own thinking about markets, their purpose and their limitations. The future shape of further education is as clear as the likely outcome of the Brexit negotiations.

Professor Keep's contribution is important and timely. Whether or not you accept his thesis in its entirety, there is no doubting the scale of the challenges further education faces, and the need for fresh, new thinking in enabling our leaders to rise to them.

Ruth Silver is President of the Further Education Trust for Leadership

THANKS

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> *"…neo-classical economics has become an effective form of soft constitution for government"*
>
> William Davies (2013: 38)

INTRODUCTION

Purposes of this paper

Largely through force of habit, many English policymakers and practitioners still refer to a further education (FE) ‘system’, yet the reality of a block grant funding system that underpinned this model has long since vanished and been gradually replaced by a set of inter-connected markets or quasi-markets for different streams of FE activity. Marketisation and increased levels of competition and contestability have transformed the environment in which colleges operate. At the same time, developments in school funding and governance, and more recently in higher education (HE), have resulted in radical changes in educational provision. These changes have led to greatly increased levels of competition between institutions for students and funds, and the arrival of new regulatory regimes to oversee this competition.

The scale of this shift towards markets and quasi-markets raises many issues for leaders and managers in FE. For example, textbook models of markets and competition suggest that there are hard choices to be made between acting as an effective responder to market incentives, and meeting wider societal and political goals and values. Some aspects of economic theory suggest that rational actors will segment their markets and seek to avoid lower margin business. The majority of retail banks will not offer accounts to low income customers as this is not profitable, yet FE is expected to deliver a considerable volume of remedial education and to act as a ‘provider of last resort’ for many students that other education providers are loath to cater to. The resolution of this issue will be determined by how management and leadership teams arrive at and reconcile the trade-offs between commercial pressures and delivering wider social outcomes. The question thus becomes how institutions conceive of these trade-offs and the incentives (financial and otherwise) that surround them.

More importantly, in an increasingly marketised environment, institutional survival now rests on management and governance teams making sense of their roles and responsibilities in the funding market(s) within which they are operating. Colleges also rely on constructing a competitive strategy and product and service 'offer' that provides a competitive advantage while also delivering their core mission and values. Fashioning and delivering this strategy is arguably now the most important leadership and management requirement in most FE organisations. The Association of Colleges (AoC) and the Centre for Skills, Knowledge and Organisational Performance (SKOPE) at Oxford University have, with funding support from the Further Education Trust for Leadership (FETL), run a project that has aimed to explore some of the fundamental issues raised by increased levels of marketisation, and to provide a set of scenarios that model how the marketplace might develop by the year 2023. The project did not address the issue of whether marketisation is desirable, although several of the respondents we interviewed did raise this issue.

The report reflects insights gained from AoC-led interviews with a range of AoC staff and government and its agencies (including Ofsted, Ofqual, the Education and Skills Funding Agency [ESFA], the Department for Education [DfE], and the Office for Students [OfS], as well as a representative of a post-92 university). The scenarios were piloted with two focus groups made up of senior staff from a number of AoC member colleges. The project also draws on what little research is currently available on marketisation in FE, and on thinking contained in a number of landmark reports, such as those produced by the Sharp Commission (2011) and the Foster Review on Further Education (Foster, 2005). It also builds on elements of our previous project for FETL on the devolution of the Adult Education Budget (AEB) (see Keep, 2016).

Backdrop

Marketisation is not the only change that is impacting on colleges. In fact, FE is facing yet another period of reform, turbulence and uncertainty. The complex challenges being generated by these changes overlay a set of structural issues that colleges face. In overall terms the main issues include:

Students and the labour market

- FE often acts as provider of last resort, dealing with the students that schools and universities do not want to cater for, and it spends much of its resources trying to remediate prior failure.
- Low employment quality in the labour market for many of the jobs that college students will enter, which in turn has knock-on effects on FE's status, and on the student 'outcome' measures of performance.
- Impending technological and occupational change, increasing self-employment and new skill demands (mostly unknown until they arrive) that are disrupting and undermining existing skills markets and qualifications – for example, the impact of digitisation, artificial intelligence (AI) and industry 4.0 on jobs and skill requirements (see Brown, Lloyd, and Souto-Otero, forthcoming).
- Brexit and the future state of the economy and labour market, which, alongside demographic change and migration policy, will impact on labour supply and the need for skills.

Funding and governance

- Public funding has been declining, and inadequate funding has been noted as a problem by the Chief Inspector, the FE Commissioner and by the DfE itself (see DfE, 2017). Research in colleges suggests that declining funding has tended to overshadow other aspects of the government's FE reform programme (BMG Research et al, 2017). The structures and systems via which funding is provided are also both extremely unstable and complex. Making sense of them and assessing the risks that engagement in any particular market segment may pose at any given moment is difficult. These risks are significant as witnessed by the outcomes generated by the tendering process for the AEB commissioning undertaken by the ESFA, and ESFA's non-levy apprenticeship tendering and commissioning. Both are examples of processes the results of which appear to have been extremely unpredictable, even for organisations with a well-established and successful track record as providers in these fields. The rules of the 'competition' (which is to some extent administrative rather than market-based) are opaque, and outcomes of these contests are uncertain even for large, well-established and successful providers (e.g. Somerset's adult learning service). The fact that the funding systems for different streams of activity are also constantly changing and evolving means that past performance offers a relatively poor guide to possible future performance, which adds to the levels of uncertainty involved.

- Marketisation and competitive pressures are increasing, while colleges are simultaneously being told to cooperate with other providers in their area – for example, around social mobility (DfE, 2017a).
- Governance arrangements are not necessarily aligned with current realities. A policy vacuum also exists around this issue.
- Colleges face a national accountability and inspection regime that is extremely high stakes, which is accompanied by pressures generated by the government's models of key performance indicators (KPIs) and the design of performance management systems, such as the impact of 'Progress 8' measures on FE colleges (see Parrett, 2018).
- Devolution of the AEB and localism, as well as the multi-level funding it brings with it for some colleges, are important impending elements in an already complex funding landscape. So too are the growing potential for tensions between localities' desires for greater policy influence and control versus the DfE's 'place blind' model of policy and the ongoing government belief in a highly centralised national direction of FE.

Policy

- There is also the issue of policy instability and the attendant risk of disruption to established markets and streams of activity – for example, the impending introduction of T Levels, the National Retraining Scheme, work placements, the transition year, devolution of the AEB, and apprenticeship reform. This problem is compounded by the fact that many of the consequences that develop as a result of policy are unintended. The general direction that policy development is liable to take on some aspects of FE are by no means easy to predict by those outside the 'sealed unit' that is central government's policymaking system and process.

Taken individually, most of these items represent formidable management and leadership challenges. Taken together, they amount to a profoundly difficult environment within which to chart a course for institutional survival and growth.

To put it another way, if marketisation and an increase in contestability of funding had been taking place in a period of overall stability, and of relatively generous levels of resourcing, the task of adjusting to this development would have been considerably more manageable and less risky than it is. The current environment is a 'perfect storm', and the range and scale of the risks currently confronting the management and leadership teams of FE colleges is large. This means that senior management and governors are faced with a high level of complexity and uncertainty, particularly in institutions that cover several different streams of provision (i.e. are not specialist institutions); have diversified across different types of provider (independent training provider [ITP], university technical college [UTC], or academy); or across different geographic localities. The scenarios will explore how some of these challenges might play out.

The other background factor, which will be touched upon in this publication, is that there is no clear overarching government vision for FE and where it is supposed to be heading. In contrast, within HE there is a fairly well-developed model and set of expectations concerning what the recent reforms are expected to deliver, although how this actually plays out may not conform all that closely to what the government expects and desires.

For FE, the most developed articulation of the future is the Skills Plan (BIS/DfE, 2016), but this relates to the delivery of the T Level reforms rather than any wider route map for FE's development. As a result, the future shape of the college sector is unclear, as is the relative priority that needs to be afforded between FE's multiple roles as a provider of 16-19 and adult education; as a provider of vocational skills (including higher-level skills); and also as a second-chance route for both young people and adults.

As the Foster Review noted back in 2005, there is a need for government to fashion, "a coherent and managed framework spanning schools, FE and HE... so that FE's role is constructively co-located alongside HE and schools..." (Foster, 2005: viii). In the continued absence of such a framework, FE has problems managing its borders with schools and HE and is in danger of becoming squeezed between the two other streams of provision (see below).

MARKETISATION, QUASI-MARKETS AND CONTESTABILITY

Given the issues and caveats raised in the introduction, the section that follows seeks to set out the essential model for markets in FE, to explore some of the features that make it distinctive (relative to the markets for schooling and higher education), and to explore some of the limits that have been imposed on it by a range of circumstances and choices.

The model

It is important not to see the dichotomy between markets and systems in too stark a set of terms. Even in countries where a systems-based approach is dominant, such as Scotland, institutions are sometimes competing for scarce funding, students and prestige. In other words, inside systems there is often an element of contestability and competition.

Second, as Bailey and Unwin (2014) point out, English FE has never been a fully-fledged system, and colleges have always needed to seek out students and to cater for transitory demands, often from students who other providers were not keen or ill-equipped to cater for. The Foster Review stated: "Over time the FE college sector has responded to the ebbs and flows of need, funding and policy, acquiring but not necessarily shedding responsibilities and developing a multi-purpose culture and image" (2005: 13). Moreover, as Perry and Davies (2015: 53) noted, colleges have for a long while now (certainly since incorporation) followed the money, which has followed individual student choice: "Colleges are only paid for actual enrolments, and these reflect student demand. Any institution that offered courses in what it felt students ought to do, rather than what they wanted to do, would soon go out of business".

Third, the markets that have been created in English educational and skills provision are not, in practice, the pure or perfect market of the undergraduate economics textbook. They are quasi, bounded or qualified markets (Tooley, 1992). As the Department for Business, Innovation and Skills (BIS)-commissioned research on the FE marketplace observed, "the level of government funding and the role of government and public agencies in the way FE is delivered mean that it is not a typical 'market'" (Snelson and Deyes, 2016: 9). In designing funding and governance models there exists a theoretical spectrum that stretches from pure system at one end to pure market at the other. A theme of what follows is that England's practical position on that spectrum has shifted in stages towards the marketised end, albeit with limits set on competition in some instances, with expectations of elements of inclusive behaviour by providers, and with both the language of system and some of the design features of systems still existing alongside a set of quasi-markets for different types and levels of learning.

It is also argued that fundamental tensions exist within official thinking between:

- Textbook models of market and complex reality
- New Public Management (NPM) models of quasi-markets and contestability, where competition is simply one tool in a managerial approach designed to obtain greater efficiency and effectiveness; and economic textbook models of markets where market forces and effectively functioning markets are the prime means via which to deliver the desired policy goals
- Markets, quasi-markets and various forms of planning

Despite these caveats, policy on schools and HE gives some clear pointers as to how general thinking, hopes and intentions around marketisation in English education are being framed:

> *We know that many systems improve because of the arrival of new challengers, introducing new ways of doing things.*
> (DfE, 2016a: 10)

> *New free schools and UTCs to enable parents and communities to demand more for their children. As well as taking action to transform underperforming schools, we will support the*

> *establishment of new schools to drive up standards and stimulate competition... by stimulating competition to provide a new school we will ensure that the best possible provider can run it – whether they are existing local schools replicating themselves to spread their success, parent and community groups wanting to provide a particular kind of school in their local area, or successful teachers and leaders from elsewhere in the country spreading great practice to new areas.*
>
> (DfE, 2016a: 17)

Similar sentiments surrounded the recent reform of HE funding, governance and accountability. The white paper on HE reform, *Success as a Knowledge Economy* (BIS, 2016), lays out the reasoning and aims of further marketisation in HE:

> *A new Office for Students will put competition and choice at the heart of sector regulation.*
>
> (2016: 6)

> *By introducing more competition and informed choice into higher education, we will deliver better outcomes and value for students, employers and the taxpayers who underwrite the system... Competition between providers in any market incentivises them to raise their game, offering more innovative and higher quality products and services at lower cost. Higher education is no exception... There is no compelling reason for incumbents to be protected from high quality competition. We want a globally competitive market that supports diversity, where anyone who demonstrates they have the potential to offer excellent teaching and clears our high-quality bar can compete on a level playing field... New and innovative providers offering high quality higher education continue to face significant and disproportionate challenges to establishing themselves in the sector. Making it easier for these providers to enter and expand will help drive up teaching standards overall; enhance the life chances of students; drive economic growth; and be a catalyst for social mobility. They will allow us to improve the capacity and agility of the higher education sector, transforming its ability to*

> *respond to economic demands and the rapidly changing graduate employment landscape, offering flexible provision to different types of students.*
>
> (2016: 8-9)

By way of contrast, relatively little has been said about official expectations concerning the intended impact and fruits of marketisation in FE. As a result, it is not entirely clear where and with what degree of importance marketisation and contestability fits into overall policy thinking on the direction of travel for FE. This may be because, as Lucas and Crowther (2016) argue (echoing Bailey and Unwin, 2014), FE colleges are, "organisations with no clear national strategic role" (2016: 592).

The main documentary evidence on the government's thinking about FE marketisation exists in the form of two pieces of government-funded research rather than policy. The first is a BIS research report (Snelson and Deyes, 2016) on *Understanding the FE market in England*, which describes the multi-layered FE 'market', to investigate the degree to which the market is functioning properly as judged by economists' somewhat abstract models, identifies barriers to the smooth operation of market forces, and suggests policy interventions to improve effectiveness.

The second is a DfE research report (BMG Research et al, 2017) that attempts to evaluate the impact of what its authors term the 'FE reform programme' (as laid out in the government documents *Skills for Sustainable Growth* [BIS, 2010]; *New Challenges, New Chances* [BIS, 2011]; and *Rigour and Responsiveness in Skills* [DfE/BIS, 2013]). This programme was taken to include, among other elements, the introduction of the National Careers Service (NCS); the work of the Commission on Adult Vocational Teaching and Learning (CAVTL, 2013 and 2014); the Independent Review of Professionalism in the Further Education and Skills Workforce; Ofsted's Common Inspection Framework; the introduction of funding for individual study programmes; a 'simplified' funding system and the introduction of student loans for post-19 Level 3 and above provision; new data management systems; and greater freedoms for colleges. We will return to some of the report's findings in this publication.

Marketisation is not new

The trends that power current policy trajectories do not come out of nowhere. A reliance on the transformative effects of quasi-markets and contestability was encoded in the ideological DNA of NPM under both the Conservative governments of Thatcher and Major, and under New Labour's Blair and Brown administrations (see Hyndman and Lapsey, 2016). For example, Bryan Sanderson, first Chair of New Labour's Learning and Skills Council (LSC), suggested that, "if businesses fail to meet their commercial goals, they go bankrupt and can help nobody. We can apply the same thinking to further education and especially the way it's funded… to be brutal, we need to inject a little discomfort into this scenario – fear of revenue streams drying up" (Sanderson, 2001: 23). As Coffield et al (2008), Bailey and Unwin (2014) and various contributors to Hodgson (2015) demonstrate, competition between colleges for students and funding has been going on for a long time; however, in recent years this has become more intense, more overt and a more conscious element of policy design rather than the unintended outcome of other changes.

Markets, management and the centralisation of power

Both the market economics textbook model and NPM favour contestability as the most effective resource allocation mechanism and as a driver of greater efficiency, lower prices and customer-responsiveness. However, NPM also incorporates a belief that political and managerial priorities need to be transmitted and reinforced via audit mechanisms, KPIs, targets and a performance management system (PMS). Here, the purely economic model diverges from the NPM model. Economists (of a certain kind) believe that the invisible hand of the market and rational choice will deliver the maximum benefits. NPM, by contrast, implicitly believes that government and individual ministers ultimately know best in arriving at a political judgement of what is required, and that the market may not always deliver what is deemed best by those best placed to know (government). In NPM thinking, the minister is in effect a 'super manager'.

As a result, the introduction of market forces in and of itself does not always mean that government can or will simply step back and leave the construction of outcomes to reside purely with the aggregate consequences of atomised customer choice decisions and providers' managerial reactions to them. As the trade magazine for the railway industry, *Modern Railways*, recently observed: "Perhaps the greatest unintended consequence of privatisation is that the railway today is under even greater state control than at any time since the days of the British Transport Commission in 1948" (*Modern Railways* editorial, November 2017, pages 6-7). Policymakers' desire to intervene in public service delivery is high, and where ministers feel that outcomes will reflect on them rather than on rail companies or FE colleges, the logical outcome is that ministers seek to intervene in how provision is arranged, either directly or via the relevant regulator. Powerful regulatory bodies, such as HE's OfS, may allow government to deploy a new set of levers through which to transmit ministerial priorities, desires and whims. This intervention in the operation of the market can usually be justified by resorting to the notion of market failure (Keep, 2006a and 2006b; Snelson and Deyes, 2016). The 'invisible hand' of the market and ministerial micro-management often goes hand in hand, and this plainly remains a danger in relation to FE.

The history of educational policy since the early 1980s demonstrates that one key consequence of moves to markets and competition has been a parallel shift towards ever greater central control of education by national government, as well as a concomitant decline in the influence of local government (Pring, 2012). As Pring reminds us, after World War II, in most local authorities the largest department with the most sizeable budget would have been education. Since the Thatcher government's shift to marketisation, coupled with radical centralisation (Barber, 1994; Keep, 2006a; Pring, 2012), the role of local government in educational provision and decision-making has shrunk to a marginal one that revolves around child protection issues, school choice and access, and educational special needs provision. Education, as one of the primary levers still left to politicians to intervene in economic and social outcomes, has long been deemed by central government as far too important to be left to others to play with

(Keep, 2006a; Keep and Mayhew, 2010 and 2014). As a result, the new educational marketplace has been exclusively designed at national level with no serious input from localities or other stakeholders.

Markets or systems (or both)?

In our interviews it was apparent that many policymakers at national level implicitly adopted an NPM perspective and desired to achieve what they saw as the 'best of both worlds' (i.e. a combination of markets and system, or markets and governmental 'steering'). The belief held was that, with a sufficiently sophisticated set of incentives, they would be able to create markets that contained elements of cooperative behaviour where policy desired this outcome. How this balance is to be achieved was, however, extremely unclear, and as some respondents noted, cooperation and collaboration can work but, "it boils down to pounds, shillings and pence at institutional level when the backdrop is a finite market for provision". Self-interest is liable to manifest itself when competition is strong. In overall terms there was no consensus, even among respondents from government and its agencies, as to whether this blending of competition and cooperation was an achievable goal. Some saw it as achievable; others expressed strong doubts that it could be delivered.

Given the above discussion, a theme running through much of what follows is that there are two fundamental areas of ambivalence within policy. The first is that, as noted above, there is a deep-seated uncertainty within current policy stances about what marketisation in FE really means and how far it should be allowed to develop, and this came through in some of our interviews with policymakers. In contrast to schools and HE, where the intended impacts of market forces have been fairly clearly specified, FE and vocational provision seems to occupy an uneasy position between two different tendencies: one that favours greater contestability and the attraction of new entrants into the marketplace; and another that appears to want greater stability in provision and elements of behaviour, like inter-institutional cooperation, that are more closely associated with systems-based approaches.

It was noticeable that in interviews for this project, the language and perhaps the logic of the economic textbook model of competitive markets makes some policymakers uncomfortable. For example, one respondent suggested that they were more at ease with the label 'stakeholder' rather than 'customer' when describing students who were choosing and buying learning.

The second area of ambivalence is reflected in the tendency for policymakers to want to avoid the downsides of any given choice: they want x and y, not x instead of y. This plays out through the inclination of FE policymakers to be nervous of the textbook model of market discipline, whereby providers that fail to deliver what customers (however defined) want at a price they are willing to pay are expected to go out of business or exit the market. As recent experience demonstrates, this is not really the mechanism that government has chosen to deploy in order to rationalise the scale and pattern of provision within the FE sector and marketplace at local level. Instead, a set of regional government-sponsored and managed official reviews, the Area Based Reviews (ABRs), was seen as the answer. As the decision to undertake ABRs demonstrated, government concluded that market forces-induced attrition was liable to be too slow and too messy a process to be allowed to shape the pattern of provision and the provider landscape where funding pressures were threatening the occurrence of multiple institutional failures. In an article in *FE Week*, the Skills Minister, Anne Milton (2018), talked about the government's desire for "stability and continuity" and "keeping the supply of training as stable as possible" as outcomes of the non-levy apprenticeship tendering process.

Problems with the sustainability of the FE sector have not vanished with the ABRs and, as *FE Week* reported (8 February 2018), 12 FE colleges were subsisting on ESFA handouts in order to bolster their finances. This reflects the fact that colleges lack the ability to become legally insolvent, which the government is now changing through legislation. Nevertheless, the FE Commissioner recently suggested that some form of government bailout funding for colleges that get into difficulties is liable to be needed for the foreseeable future (Burke, 2018a). Again, the current policy paradigm endorses and invests in markets and market forces, but seems inclined to back off when unpalatable consequences seem liable to emerge. At a theoretical level, policy encompasses a desire for new entrants and more contestability (Snelson and Deyes, 2016); however, the government and its agencies seem to struggle to accept the idea that colleges can/should exit the market if market forces render them insolvent. Perhaps it is the case that policymakers are comfortable with the idea at an abstract level, but find it painful to face the actual consequences of such institutional failures.

Interestingly, this desire for stability in provision appears to apply most strongly to FE colleges. There has been a string of financial collapses (sometimes hastened by poor Ofsted inspection outcomes) among independent providers, and in the majority of cases this appears to have been seen as perfectly acceptable by policymakers. The one exception was Learndirect, the largest ITP then in existence, which the ESFA and/or government appear to have deemed too big to fail, or at least fail rapidly (see Camden, 2018a). It is also plainly a very different logic from that operating in the secondary school sector and market where, although formal insolvency of the kind that will now be possible in FE is not accounted for in legislation, the reality is that UTCs and studio schools have been failing in relatively significant numbers as they have proved unable to attract sufficient pupils. Some Multi Academy Trusts (MATs) have also got into serious financial difficulties, been wound up and their schools transferred to the supervision of other bodies (McInerney, 2018). The government has appeared fairly relaxed about these failures, despite the high public capital investment costs that have often had to be written off as a result.

It will be interesting to see what happens when the first HEIs get into financial trouble, an event that appears highly likely to occur given falling applications to some of the large, lower tariff institutions (see below). The rhetoric of the new marketised HE policy is clear: failing universities downsize and/or withdraw from that area of provision and exit the market. As Evans notes: "The philosophy of market forces that inspired [the] Higher Education and Research Act 2017 (HERA) as a whole predicts and welcomes failures as evidence of the successful operation of competition in the HE sector" (2018: 5). The OfS's role is, at most, confined to trying to help their current students find a new provider. The traditional route for HEIs that get into financial trouble – merger – will be much more difficult to contrive, as there is no longer formal provision for state funding to incentivise successful institutions to take on the burden and risk of absorbing a weaker institution.

To summarise, policymakers' reaction or attitude towards educational institutional failure as a result of the action of market forces is as follows:

Schools	ACCEPTABLE CONSEQUENCE
Independent training providers	ACCEPTABLE CONSEQUENCE
Universities	ACCEPTABLE (in theory only at this stage)
FE colleges	ABOUT TO BECOME POSSIBLE (government attitude to this actually occurring is as yet unclear)

The reasons for this divergence are not immediately obvious, but plainly have important consequences for the ways in which different educational market segments will develop and need to be regulated.

Another sign of ambivalence about markets in FE is the fact that it is manifestly unclear whether the overall pattern of course provision should best be determined by market forces and atomised student choice, or by systems designed to plan and match skill demand and supply. This is a traditional feature of the NPM model within English skills policy (Keep, 2002, 2006a and 2016), and one whose latest manifestation is the locality-focused Skills Advisory Panels (SAPs) promised in the Conservative Party's 2017 manifesto. Some of the policymakers to whom we spoke argued that the aim was to get to the point where competitive market forces mean that colleges and ITPs are making well-informed decisions on course mix that reflect employer demand. For them, a poor market outcome would be where all the colleges in a locality or region were doing the same thing. The government wants across the board course provision in a locality, but to do this, different providers need to cooperate and specialise in different things. At this stage it is not clear how realistic such hopes are. In the aftermath of the ABRs and college mergers, the pattern of FE provision is shifting, and indeed has shifted substantially in the recent past (see BMG Research et al, 2017). It may be that specialisation will emerge over the next few years.

Competition in a market where someone else designs the product?

Besides price, the other normal dimension of competition is product quality or specification. The means to competitive success in the textbook marketplace is to design and then deliver a distinctive product or service that rivals cannot imitate or match. However, in many of its markets, FE finds itself delivering and selling products that have been designed by someone else, usually with little or no direct input from colleges themselves – for example, apprenticeship frameworks, T Levels and most existing vocational qualifications. Awarding bodies, government and its advisors, a small subset of employers and, in the future, the Institute for Apprenticeships and Technical Education (IfATE), will have normally designed the product. In marked contrast to HE, FE and secondary schools both have little direct control over the design of the bulk of its product range, or over the status of the products' brand image (which is generally controlled by government and/or awarding bodies). Moreover, as noted above, one of the disadvantages that FE experiences is that the pay and social status of a large proportion of the jobs it prepares its students for are relatively low, certainly compared with what people perceive will be the labour market outcomes of participation in HE.

Furthermore, some of the products or components therein, such as the need to deliver English and maths to those without an acceptable level of prior attainment in these subjects, are not dictated by the market, but by government. It seems likely that if it were left to customers (students), English and maths, at least in the form of GCSE resits, would vanish in an instant (BMG Research et al, 2017). However, customer voice is often not heard in many of the decisions about product and service design and specification in FE.

It is unclear what scope there is for differentiation in many market segments when government and the ESFA dictate the price of the product, and where the curriculum (unlike in HE) is set by external awarding bodies. How does one college differentiate its Level 2 business administration course from that being offered by the college down the road? The answer would appear to be that insofar as most general FE colleges have a brand, it is an institutional one. It is relatively weakly tied to the delivery of a distinctive product or service, and usually seeks to differentiate the college on the basis of the quality of provision of a product designed and specified externally, links to local stakeholders, student satisfaction, etc.

As a result, the quasi-markets that English policymakers have constructed in FE do not leave much in the way of conceptual and political space for bottom-up leadership or strategic change and agenda setting. The main role that policy allots to colleges in the multiple marketplaces of FE is to be rapid responders to customer preferences rather than agenda setters. Customer responsiveness rather than wider strategic agency is what is required.

More broadly, one of the problems with studying FE marketisation is that there is a large gap between the simple stylised economics textbook models of markets and competition, which suffuse and inform the policy discourse, and the much less clear-cut, far more complex set of rules and procedural requirements that underpin the acquisition of FE funding via a bidding and tendering process for different ESFA funding streams. Despite the official rhetoric, it could be argued that in many instances the real customer (i.e. the one with the actual spending power) in this marketplace is neither the student nor their employer (prospective or current), it is the ESFA and the government. Moreover, it is also noticeable that outside of apprenticeship provision and other forms of training for employers (and HE in FE) price-based competition plays a limited or non-existent role in competition between providers, as the ‘price’ is established by the ESFA.

Unpredictable and unintended consequences created by market incentives

Some of the markets that FE caters to are extremely volatile. In oral evidence to the House of Lords Select Committee on Economic Affairs, Richard Atkins, the FE Commissioner, observed that the margins for colleges on the different streams of activity and funding are often very tight, that outside of 16-18 funding volatility is sometimes considerable, and that it is easy for a college's finances to veer off track if even small changes occur (House of Lords, 2018). College management's perceptions of this instability and its impacts on their institutions, not least in terms of trying to spread and manage risk, are provided by BMG Research et al (2017).

Moreover, in the FE and vocational education marketplaces, complex incentive structures exist and are continuing to evolve. Although these incentives exist within the market, their origin often lies not with market forces, but in policy decisions and the particular ways in which the ESFA has designed the administrative models for funding and tendering systems. These are often unstable and produce unexpected results and unintended consequences for policy, as players and providers act in response to these incentives. As noted above, knowing in advance how a new funding round will operate is almost impossible for those who are bidding. Changes in funding systems also impose significant costs on colleges, as their own internal systems and processes have to adapt (BMG Research et al, 2017).

The apprenticeship levy and the rise of degree apprenticeships is one clear example of this in operation. The levy is liable to reduce provision for 16 to 18-year-olds, particularly in entry-level work in high-volume areas such as social care, retail, hospitality and catering, as employers refuse to live with the day a week on-the-job training requirement. The losers from this development are likely to be FE colleges and ITPs.

This is also likely to significantly increase the proportion of degree and above apprenticeships as university business schools and other providers (e.g. Chartered Management Institute) help large firms to convert their graduate training schemes and management and supervisory training schemes into something called 'apprenticeships' in order to reclaim their levy. This is not what government policy intended. Additionality via the levy may end up being negative, with the overall number of apprentices smaller than it was before the levy (as high-level provision is more costly on a per unit basis). In addition, the amount of training that otherwise would not have taken place will also be smaller as existing management training is simply re-badged as something now called 'apprenticeship'. The levy has therefore provided a massive incentive for firms and providers (especially university business schools with spare capacity to sell) to collude, and for universities to enter into the apprenticeship market in a big way.

There are multiple markets

There is no single 'FE market'. Within English FE there exists a range of different markets, catering to different ages and types of student on different course levels. The shape of these market segments and the ways in which they function is driven by different funding streams and arrangements. The situation can be summarised as:

- **16-19 provision:** driven by individual student demand and with funding following the student and their choice of provider and course.
- **HE:** loans funded and driven by individual student choice within the context of a national market. Funding follows the student.
- **19+ loans funded:** allocations of loan funding 'given' by the ESFA to individual providers to be 'sold' to students with take-up driven by individual student demand, and with the long-term impact on the shape and size of demand from the switch to loans not yet fully apparent.
- **19+ Adult Skills Budget funded:** being partially devolved from national level and, from 2019, to be commissioned and effectively planned by the local combined authority (see Keep, 2016). For non-devolved areas, providers bid to the ESFA for allocations.

- **Levy funded apprenticeship:** purchasing power in the hands of the individual employer.
- **Non-levy funded apprenticeship:** allocations from the ESFA, which then have to be 'sold' to individual employers and apprentices.

There is also a spatial dimension to the markets. In any of the given segments of provision to which FE caters, most of the markets are locally-based rather than national (unlike the HE market). As a result, a set of overlapping and differently sized local and sometimes regional and/or national markets exist, each with its own boundaries and logic. Research for BIS (Snelson and Deyes, 2016) suggests, based on a detailed analysis of travel-to-learn patterns, that the FE market operates at three distinct levels across seven groupings of provision:

Local

1. **Local core mixed environment training,** covering Levels 0-3 and leisure courses. Within this market there are distinct customer segments for 16 to 18 year-olds (who have a wider range of choice of providers than 19+) as well as for learners routed via Jobcentre Plus who may have little choice of providers.
2. **Local basic community-based training**, covering Levels 0 and 1, as well as adult community learning courses that do not lead to a qualification.

Regional

3. **Capital intensive training**, offered from an FE provider's site (rather than in the workplace), covering all qualification levels.
4. **Regional advanced sector-focused training**, covering Level 4+ but only on courses that are not capital-intensive.

National markets

5. **Sector focused training in the workplace**, covering all levels, with distinct customer segments for large employers.
6. **Specialist (often residential) provision**
7. **Prison-based learning**

This model of spatially differentiated or segmented provision at different skill levels implicitly underpins the assumptions upon which the case for National Colleges and Institutes of Technology (IoTs) has been founded.

There is a range of 'customers' and stakeholders, and the way their choices impact on providers varies

FE is very different from schools and somewhat different from HE in respect of identifying who its 'customers' are. In the school sector and marketplace the customer is the individual student and his or her parents or guardians. They are the consumers of what the school has to offer and their choice of school (mediated by its popularity and its ability to actually choose at least some of its students) triggers funding, as funding follows pupil. In HE the primary consumer is deemed to be the student, although OfS and the government also talk about employers as customers or customer interests whose needs should be taken into consideration by HEIs. Again, funding follows individual student choice of subject, course and institution, which leaves employers with limited direct leverage.

In FE and the vocational marketplace, things are somewhat different. For 16 to 18 and 19 year-olds, funding follows the student, and FE and apprenticeship and traineeship providers are in direct competition for students with school sixth forms. Money flows with the student rather than via any payment by an employer, so students are the direct 'customer' whose demands need to be satisfied. The same happens, though on a much smaller scale, with the recruitment of students studying for HE courses within FE, where the funding flows through the student.

However, in all the other market segments that FE operates within, this is not the main model for funding. In levy-funded apprenticeship, the customer is clearly now the individual employer (or an agent or prime contractor acting on their behalf). The spending power is in their hands.

For the other streams of activity, colleges and a wide range of other types of provider can all bid for tranches of public funds from ESFA –

for example, 19+ loans, 19+ AEB, and non-levy apprenticeship. Once funds (granted against forecast student numbers and enrolments) have been acquired, the provider then has to find enough students (or in the case of non-levy apprenticeship, employers) to deliver the places and volumes promised to ESFA. Undershooting the student volume target will generally result in money having to be handed back to ESFA. The direct customer is, it can be argued, the government, and, once the AEB has been devolved, it will for this element of funding become the combined authority (CA) within whose locality the college operates. Not all respondents accepted this model of analysis, with some insisting that the state's role is not that of a customer, but rather one of an enabler and or regulator, which steps in when the system 'needs help'.

It was noticeable that some government and agency respondents we interviewed stressed the view that employers were increasingly being seen as the primary customer, particularly in relation to apprenticeships in a way that perhaps had not previously been the case. "Policy is shifting towards the employer as the overall customer of the skills system" was one comment, although this was caveated by the observation that government conceived of this in terms of the skills that employers 'need' rather than the ones that they simply 'want', as it was recognised that employers are, "an imperfect customer". In a well-functioning market there would be, "a smaller gap between what employers want and what they say they are getting".

However, this does not mean that there are not other customers and/or stakeholders involved in the FE marketplace (broadly defined), not least students as a collective body (rather than as individual consumers) and the wider local community. This raises a host of issues about how accountability and governance arrangements are meant to operate, both across a college as an institution, and across different strands or streams of provision within each college. There is plainly an element of tension between the clear, stark and simple economic textbook model of individualised customer-provider relationships, and the much more varied and complex relationships in FE between the college and those who choose and use, directly and indirectly, its products and services.

Sub-contracting

Sub-contracting elements of FE provision is a fairly distinctive feature of the FE and vocational education and training (E&T) marketplace, in that it does not really occur within schooling and is limited within HE to where a university validates provision by others (as is the case with most FE in HE courses). It is, however, a major part of the 'supply chain' within some strands of vocational provision, particularly apprenticeship and some parts of adult and community education, and there is, for example, considerable controversy concerning the tendency of the lead contractor to 'top-slice' significant sums of public funding before handing it on to the sub-contractors who deliver the provision. It also means that the quality of what is being offered is often not under the direct control of the 'prime' provider. This is a point acknowledged by Ofsted in terms of their recognition of the need to inspect sub-contracted apprenticeship provision. There are interesting questions, which this project has not had the time and resources to address, about how this model has come to be adopted and what its full implications are.

The vocational marketplace – welcome to the 'Wild West'?

One of the more striking features of the marketplace for some forms of vocational provision, particularly apprenticeships and adult post-19 loans-funded activity, is that it has been characterised by forms of provider and supplier behaviour, particularly among some ITPs, which raises serious issues about organisational ethics, integrity and in some instances basic compliance with the law (Camden, 2018a and 2018b; Allen-Kinross, 2018). The very gentlest description of some of this behaviour would be that it demonstrates a willingness to 'game' the rules of the public funding system and to seek to circumvent the original intent of different aspects of public policy – for example, tax avoidance linked to apprenticeship levy funding (see Allen-Kinross, 2018). In other cases, outright fraud has occurred, for example with a group of ex-professional footballers extracting £5 million apprenticeship funding for 'ghost learners' and provision with a tiny number of contact hours per student per week (Camden, 2018b).

In this respect, the FE marketplace in England is showing some signs of mirroring the problems with fraud and low-quality provision that occurred in Australia when they opened up their technical and further education (TAFE) system to market-based competition by private providers (Ross, 2018; Wheelahan, 2016 and 2018). The scale of fraudulent activity in some of the Australian states has been vast (see Ross, 2018), and serves a warning about what can happen when market regulation fails in the face of widespread attempts to steal from the taxpayer.

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Policy ambitions

Policymakers' aspirations are often at odds with the reality of what either local systems or a nationally-designed marketplace can realistically be expected to deliver. The decline in adult learning volumes at Level 3 and above following the introduction of advanced learner loans in FE is one example of a market-based policy not generating the intended outcomes, although projections by BIS did warn that loans would have a negative short-term impact on take-up. At local level, the ambitions that the CAs harbour for the devolved AEB often appear to bear little relationship to the actual scale of resources being offered by central government. For example, Greater London Authority's (GLA) core AEB will amount to approximately £311 million per year, to cover a population of more than 8.5 million. The ambitions contained in the GLA's skills strategy (GLA, 2018) are extensive and in the short to medium-term are probably not commensurable with the level of resources available to deliver them.

HOW THE FE MARKET IS WORKING – COMPLEX REALITIES

Given the aforementioned background, how well and in what ways is the current FE market and set of quasi-markets functioning? This section outlines some of the key points.

Massive variation in colleges' starting points, capacities and responses to markets

Colleges face the future development of the FE marketplace(s) from very different starting points in terms of:

- The health of their local labour markets and economies
- The degree of social deprivation that the communities they serve face
- The types and mix of students and courses
- The size and quality of their buildings and equipment
- The state of their finances
- The capacity of their staff and management structures
- Local histories and patterns of competition and cooperation
- Relationships with a range of local stakeholders

For example, the potential for cooperation rather than competition in 16-19 provision will vary enormously depending on area and local circumstances (e.g. the prevalence of school sixth forms). This has significant implications for policy development and for the rollout of national policy initiatives, in that the ability of colleges to respond to and deliver these will vary considerably.

It is also the case that developing any scenario that delivers a desirable outcome for all colleges is extremely hard to contrive. It is clear from the focus groups and from our previous project on devolution that different institutions want different things. For example, some colleges have learned to compete and thrive in the marketplace, and made it clear that they would strongly dislike being constrained by any form of new local accountabilities. Others would like to see more cooperation between local institutions and might be willing to trade some autonomy for greater stability in funding.

New entrants and consolidation

The FE marketplace has welcomed a considerable number of new entrants. Snelson and Deyes (2016) note that between 2011/12 and 2014/15 approximately 260 new school sixth forms entered the 16-18 market (2016: 8). Even greater change has taken place in apprenticeship provision, with multiple new entrants arriving after the introduction of the levy. The number of approved apprenticeship providers and those with an AEB allocation registered as in scope for Ofsted inspections rose from 1,043 in 2011/12 to 2,543 in April 2018 (Burke, 2018b). The vast bulk of the increase has taken place since May 2017 and has raised issues about how well-resourced Ofsted is to cope with this set of new providers, some of whom the chief inspector speculated could have, "very limited experience" (Linford, 2018).

This influx is coupled with large-scale ITP failures (e.g. Learndirect), and also major falls and shifts in the pattern of employer demand. It suggests that in some of the markets that FE operates in, competition is increasing, in a variety of ways.

Some of the respondents we interviewed felt that there was a tension between market exit being dependent upon Ofsted's grading and judgement, while market entry sometimes appeared to be quite low stakes and relatively easy to achieve. As the markets develop there was a belief that perhaps ESFA, IfA, QAA, Ofsted and OfS would need to think hard about the criteria for accepting new market entrants.

The other way in which the marketplace has been adjusting is via college mergers. No less than 55 college mergers have been completed or are due to be undertaken between summer 2016 and summer 2018. This consolidation has been driven by the ABR process, but also given added impetus by ongoing funding pressures.

The role of competitors – schools and HE

One of the central issues that emerged in constructing the scenarios for 2023 is the fact that FE is, perhaps more than ever before, in competition with schools on one side (BMG Research et al, 2017) and universities on the other. The impact of the competition with schools for younger learners is documented by BMG Research et al (2017).

This is not a new problem, however. The Foster Review noted that, "the FE colleges are more and more drawn and squeezed into roles that are defined by demography and policy changes and the emerging roles of HE and schools" (2005: 14). The issue has been heightened, however, by funding cuts and the increased pace and scale of the marketisation of schools and more latterly HE.

With the current demographic downturn in the number of older pupils, secondary education in England is facing major issues about local overcapacity, a situation exacerbated by the government's pupil choice agenda which has seen investment to create surplus school places as a means of enabling competition. Successful schools have to be able to expand, and new challenger entrants, such as free schools and UTCs, are needed to enliven the market and disrupt the dominance of established players, thereby supposedly stimulating a drive by all schools to improve standards and better provide what parents and government want. As a result, the government has proved willing to fund fresh market entrants, provide capital investment to get new schools off the ground, and to subsidise their losses as they seek to build their 'customer base'. For example, the cost to the public purse of establishing university technical colleges (UTCs) has so far amounted to £192 million (NAO, 2018). Under-recruitment against projected targets by UTCs meant that they were overpaid by the ESFA to the tune of £11 million in 2017 (Burke, 2018c).

As studio schools and UTCs have discovered, the 14-18 school choice marketplace that has been created is a brutal one, with FE colleges, apprenticeship providers, sixth form colleges and traditional school sixth forms all fighting for 'market share'. Within this marketplace, schools remain reluctant to allow a level playing field, and the government has recently taken action to enforce the 'Baker Clause', which provides a legal duty on schools to allow other education and training providers, such as UTCs and FE colleges, access to pupils to talk to them about technical courses and apprenticeships (*Schools Week*, 14 May 2018).

The role, weight and momentum of a mass HE system are also extremely important. Schools and universities have tended to possess a political visibility that FE lacks, particularly in national policy, and HE has been seen by politicians from all parties as the prime means of delivering higher levels of technical and vocational skill and enhanced social mobility. More importantly, at present, there is overcapacity in HE, particularly among lower-tier institutions, which have been hit by the tactics of elite Russell Group universities which have been expanding their student numbers quite significantly, lowering their tariffs and recruiting students from middle ranking institutions. Russell Group student numbers increased by 15 per cent between 2011 and 2015, while the low-tariff Million+ Group lost 22.9 per cent. Since fees were increased, universities have also invested massively in capital stock, teaching infrastructure, new halls of residence and social space refurbishment programmes aimed at attracting students, with collective overall spending in the region of £28 billion (Higher Education Funding Council for England [HEFCE], 2018). Much of this has been borrowed from banks at commercial rates of interest. As HEFCE notes, financial performance in many institutions is weakening and the current financial trajectory is not sustainable in the longer term. This means that some HEIs are already in search of increased student 'feedstock' and new markets and customers to sustain themselves.

At a broader level, the government's current inquiries into Level 4 and 5 provision and post-18 funding can be seen as straws in the wind in terms of the dawning of a new questioning of the sustainability of the current model of mass HE. Underlying these two government inquiries is evidence of increasing levels of non-repayment or partial repayment of student loans, and of a large number of graduates working in non-graduate employment on low rates of pay. For example, 25 per cent of all UK graduates, 10 years after graduating, were not earning more than £20,000 per annum, when the threshold for starting to repay the student loan is £25,000 per annum (DfE, 2016b).

If the current model is found to be unsustainable then HEIs will need to respond and seek to reset the policy agenda. They may decide that part of their response consists of delineating the 'space' left available to FE in relation to:

- Level 6 (honours degree) HE in FE
- Degree apprenticeships
- Levels 4 and 5 sub-degree provision
- Level 3 vocational and professional provision
- Foundation years

In order to maintain student numbers and boost income levels, some universities are already looking to enter and develop new market segments that might, in other circumstances, be seen as 'belonging' to FE. This attracted the attention of several of our respondents. A vice chancellor in a post-92 institution suggested that, "policy is always beaten by demographics", and that the current downturn in the 18 year-old population means that HE is trying to find new markets and students. HNDs and HNCs have been one area (see Crowther, 2018: 30-31) and another has been access courses, which are traditionally a preserve of FE. Degree apprenticeships are also a relatively new focus, and it is reported in conversation with some colleges that their local university, which has acted as the validator for their 'HE in FE' provision, has withheld or is threatening to withhold validation agreements in subject areas where the HEI is offering or liable to offer degree-level apprenticeships. A few universities have also started to move down the qualification levels and provide mainstream Level 3 qualifications, again a traditional area for FE. The current focus on boosting the supply of Levels 4 and 5 provision, and the need for more and better sub-degree courses (Wolf, 2017), opens up the prospect of competition between HEIs and FE colleges as to who will lead in developing and serving this new stream of activity. The vice chancellor that we interviewed admitted that, although they had hoped to work collaboratively with local FE colleges on this, the present policy and funding environments are pushing things in the opposite direction. Both FE and HE were in quasi-markets that made close cooperation hard to contrive. In Scotland, under a 'paternalistic system', it was much easier to construct and maintain partnership-based articulation agreements between colleges and universities.

FE therefore finds itself potentially squeezed on both sides, with competition from schools for 16-19 students, and from universities for some elements of post-19 provision. Increased competition is one response, while another is to move towards more cooperative and integrated local tertiary systems.

Regulating the marketplaces and ensuring accountability – complexity rules?

The project's interviews with policymakers and stakeholders revealed a range of interpretations of how the current inspection, regulatory and accountability machinery was meant to operate, and widely varying views about how well it was performing. What was generally accepted was that it was a complex picture. In marked contrast to the markets for qualifications and HE, there is no single, overarching regulatory body for FE. This complexity was recently acknowledged by the Skills Minister, who admitted, in relation to accountability for quality in apprenticeship provision, that, "I think the relationship between ESFA and Ofsted over quality is quite difficult to define and I think we need to define that more clearly" (Camden, 2018c). This confusion exists despite the existence of an apprenticeship accountability statement (DfE, 2017b), which is supposed to set out exactly which body is responsible for which aspects of regulation and accountability in the new and emerging apprenticeship marketplace. There are no parallel documents or statements for the other FE marketplaces.

In the overall FE and vocational marketplace and its various public funding streams there is what could be termed a regulatory and trading oversight regime, which had grown up piecemeal and with no overarching design. This comprises of (NAO, 2017):

- DfE, which 'sets overall policy and regulatory framework for further education' (NAO, 2017: 11)
- ESFA, which monitors both the performance and outputs of providers relative to a set of minimum performance benchmarks and targets (e.g. apprenticeship completion rates), and also the financial health and stability of providers (based on their audited accounts) against minimum standards. The ESFA can intervene if it believes there are problems. It also seeks to ensure that financial regulations that relate to the spending of public funds are adhered to
- Ofsted, which takes an overview of provider performance and, from this, profiles provider risk and directs and prioritises its inspections accordingly
- FE Commissioner, who can intervene in FE colleges (but not other types of provider) if their performance is seen as being of concern, and can develop an improvement plan for that college.

In the marketplace for providers other than FE colleges, non-apprenticeship provision that is employer-funded is not regulated in any way. Providers not in receipt of government funding are effectively unregulated.

Respondents noted that there are sometimes overlaps, particularly where funding and quality oversight meet, that each market segment has its own 'system' of regulation, and that the new model for HE (OfS and QAA) is very different from that pertaining in FE. In turn, compulsory education was a different market from post-compulsory. The transition point between the two marks a different market, with different metrics. There are also questions about the level at which regulation is taking place. Chiefly, this is the individual institution, with the wider consequences for the 'system' and pattern of provision less visible. In overall terms, as one respondent commented, "at present, regulation is a hybrid, with a lot of tensions and complexity".

Besides there being a set of very different regulatory systems for each segment of the FE market, there is limited transparency regarding who ultimately decides on the nature and rules of the different competitions for public funding. Some respondents also highlighted the question (raised earlier in this paper) concerning who was the primary customer on whose behalf inspection and regulation was taking place? There were potentially several different answers: the provider/institution, employers, students (current and prospective), parents, wider society, and government and its agencies. At present, there is just one inspection report, written in one style, to meet all these different needs. Even if the identity of the primary customer was to become clearer, it is also far from obvious which element of the regulatory system really guards students' interests. Some might claim that this is part of Ofsted's role, but it is not manifestly clear that this is really the case and in our interviews the answer to the question of who looked after the interests of individual students was noted as being quite uncertain.

Capacity to deliver effective oversight is also an issue. Ofsted has managed to extract the promise of additional funding to support its ability to inspect the multiple new entrants to the apprenticeship market noted earlier, but other agencies have been less fortunate, with ongoing staffing reductions in the civil service and its agencies creating pressures as capacity and expertise is lost. For example, the Learning and Skills Council in 2001 had approximately 5,000 staff to discharge its responsibilities. The ESFA, which has a larger remit (covering a £50 billion schools budget as well as FE, apprenticeship and the AEB), has just 1,100 staff.

In addition, market regulation and institutional inspection are two rather different activities, with different rationales and outcomes, and in our interviews with policymakers some concerns were raised about the high stakes and consequences that resulted from Ofsted inspections when results triggered actions and interventions by ESFA and others. It was noted by some respondents that this had a negative impact on the nature of the relationship between the inspectorate and the sector.

Another downside to the high-stakes national performance management and inspection regime is that it may act as a major disincentive to innovation and experimentation by college management and leadership teams, as the consequences attendant upon any visible failure are liable to be dire. Rather than learning from any kind of failure, the system we have at present is much more liable to punish those deemed responsible. There is an interesting irony here, as one of key lessons from repeated waves of national-level policy failure is that policymakers are almost never punished for sponsoring, designing or managing what is often abject, large-scale and costly failure (Guerin, McCrae and Shepheard, 2018). Nor are lessons necessarily learned through this experience (Norris and Adam, 2017). Wild and risky experimentation instituted at national level has generally carried remarkably few consequences, whereas at college level, the penalties for even modest forms of experimentation that do not work to plan are extremely high.

Local accountability also matters, and in the CAs this issue is likely to come under considerable scrutiny as the devolution of the AEB and its consequences unfolds. On this topic there are a range of models already available that could form the basis for fresh thinking, particularly in the context of the devolved AEB and attempts in some localities to move towards more local partnerships and a systems-based approach to provision (see Morecroft, 2012). An ecosystems approach offers one avenue (see Hodgson and Spours, 2015; Green et al, 2017; Green and Hogarth, 2016; Buchanan, Anderson and Power, 2017; Hodgson et al, 2017b; Hodgson and Spours, 2018). There is also the City Growth Commission's (2014) report on workforce investment, which provides an example of a more rounded and joined-up approach to what a localised skills system could look like, as well as how it might interact with the wider labour market, employment, and economic development and business improvement policies.

THOUGHTS BEFORE THE SCENARIOS

This section provides an overview of some of the issues that marketisation by central government is raising for the different parties involved in English FE. There are many topics that, for reasons of space and time, have had to be left to one side.

Overarching tensions

The scenarios reflect on the fact that the markets that FE operates in and the overall policies for E&T in England are faced with four major, overarching issues:

1. FE's role in dealing with social inclusion versus a role as a provider of high-status vocational courses (see Foster Review, 2005, for details).
2. Market or quasi-market versus a more systems-based approach (with tensions at both national level, and between national and local levels).
3. National versus local and institutional priorities and choices.
4. A long-standing three-way tension between the pattern of provision that employers claim they want, individual students choose and government aspires to.

At present, none of these tensions has been resolved, and the immediate prospects for this occurring are limited.

Where will devolution lead?

Devolution of the AEB forms one of the strands within the scenarios. At present, it is limited to just the CAs rather than, as originally intended, embracing the local enterprise partnerships (LEPs), and it can be seen in two ways. The first is that this represents a relatively minor adjustment that, at best, will create some small geographical 'islands' of limited systems-based approaches around a limited funding pot for adult skills, which are surrounded by an ocean of largely market-based provision and national policy priorities. The AEB will not provide a high enough level of resources to incentivise any widespread change and local collaboration will remain patchy and weak. The second viewpoint (see Keep, 2018) is that a new policy model is emerging that embraces Wales, Scotland and some of the CAs. This emergent common strategic approach integrates skills policy into a broader set of policy concerns linked to localised industrial strategies, economic development, business support and development, innovation, job quality, fair wages, inclusive economic growth, and progression in the labour market.

FE is well positioned to contribute to this more integrated policy model. Colleges know how to offer re-training and upskilling opportunities; they have strong links to local communities and a track record of engaging with individuals and groups otherwise lost to education; in many cases they possess contacts with local employers, especially some of the small and medium-sized enterprises (SMEs) that other networks struggle to engage with; colleges undertake, in ways invisible to Whitehall, elements of business and innovation support services to local business; college delivery models are usually more flexible than those of schools and universities; and if they are quick they can move to fill the significant gap in sub-degree (Levels 4 and 5) provision that national policy has finally woken up to.

The concept of FE as local economic and enterprise catalysts and hubs has been around for a while (Sharp Commission, 2011). The new policy focus on local economic development and socially inclusive growth offers an opportunity for FE to provide local leadership and to meld together its two main roles: second-chance learning and vocational skills. In some localities (the West Midlands is one example), college groups have already come together to explore this emerging agenda through new kinds of FE consortium models and through the promotion of new joined-up skills offers that can be integrated into economic development strategies at CA level (see KennyBirch, 2018; West Midlands Further Education Skills and Productivity Group, 2018).

The CAs are also collaborating to share information and learning as policy develops, and to form a common cause to press Whitehall for further control of education, training and skills. How devolution unfolds and where it stops will be important issues in the coming years.

The role of employers in provision

As previously noted, for some in government, employers have come to be defined as the primary customer in the emerging FE marketplace(s). As such, much of what policy desires by way of outcomes revolve around the needs, wants, asks and actions of employers. Employers' recruitment preferences, their willingness to invest in adult re-training and upskilling, and their propensity to take on apprentices are central to government's policy goals. Current indications are not particularly encouraging on this score. On recruitment, many of the problems of informal recruitment processes and bias against young people identified by the UK Commission for Employment and Skills (UKCES) Youth Inquiry (2011) appear to have worsened rather than eased (Purcell et al, 2017). Innes (2018) notes that the UK now has the second lowest proportion of employees receiving work-related training, with UK workers only half as likely to receive training from their employer as their counterparts in the Netherlands, Finland and Sweden (Innes, 2018: 9).

There is debate over whether Brexit will push a greater degree of reliance on 'homegrown' talent. The answer is probably, but the scale, focus and practicality of this shift is unknown and unknowable at this stage in the Brexit process, and it is unclear how willingly employers will cooperate with any national strategy that expects a greater input and expenditure on their behalf.

Given this backdrop, one of the key issues for FE policy is the way in which in England, in marked contrast to Scotland and Wales, government has sought to remove or downplay the role of structured forms of representation for employers. Instead, there is a reliance on small, one-off groupings of employers to construct apprenticeship and T Level standards, combined with employers' choice of providers as the main means of ensuring that FE provision is responsive to labour-market demand. The paucity of effective English national, sectoral and local and regional level organisation and representation for employers is now quite marked when contrasted with practice elsewhere in the UK.

For example, in Wales, there is a Welsh Employment and Skills Board (WESB) and a Welsh Apprenticeship Advisory Board (WAAB). Three Regional Skills Partnerships (RSPs) oversee labour market and skills forecasting, and provide an indication of priority skill needs, and the investment of time and energy on working with what is left of the Sector Skills Councils (SSCs) and other industry-level representative bodies to maintain and update the National Occupational Standards (NOS) that underpin the construction of vocational qualifications. In Scotland (see Keep, 2017), the government has invested in the creation of regional boards to deliver the Developing Scotland's Young Workforce policies, which has required priority sectors (i.e. those that are the focus for economic development planning) to develop sectoral Skills Investment Plans (SIPs) has also worked hard to ensure that employers and their representatives are as fully involved as possible in policy formation.

In Wales and Scotland, notions of partnership around co-production of skills are considerably more prominent in the policy discourse (Keep, 2014 and 2017). Policy in Wales is shifting towards a tertiary education system (bringing together FE and HE under a single funding and regulatory body) within the wider context set by government economic and employability strategies that seek to incentivise employers to play a more active role in skills formation and to assume greater direct responsibility for investing in their employees' skills. This policy is backed by moves to make employer commitment to improved job quality and investment in training a precondition for being able to access Welsh Government industrial support for training, investment, economic development and business support and improvement (see Welsh Government, 2018a and 2018b).

In the English national policy context things are very different. Even what are ostensibly dirigiste government interventions, such as the levy, have a marketised flipside. The levy was in part designed to ‘put employers in the driving seat’ by giving them a greater direct financial interest in becoming more discerning and demanding customers. However, there are limits to this, as central government has its own aspirations for apprenticeships. One respondent observed that, while the rhetoric around “employers in the driving seat” is strong, if employers start to drive too fast or down the wrong road, the government will intervene.

Against this national policy backdrop, colleges and localities (Keep, 2016) are seeking to develop their own approaches to working with and for employers. Colleges’ dealings with employers can be contractual and transactional, but this does not have to be the norm. Hodgson et al (2017a) argue that colleges and employers are not bound to end up in a simple, market-based customer-supplier relationship, and that longer term, more trust-based models can be developed, especially if the relationship is conceptualised as the kind of two-way street advocated by the CAVTL report (CAVTL, 2013 and 2014). In this model, co-design, co-production and cooperation within an emergent skill ecosystem, rather than a spot market for skills, becomes the aim.

Successful performance = what exactly?

Working out what good performance looks like is not easy in the E&T marketplace. In part, this is because different actors and stakeholders have markedly divergent perceptions of what kinds of outcomes are in their best interests. Economic theory has long noted, for example:

- Employers logically want a surfeit of skills (in order to give them hiring choice and drive down wages). If these can be provided at cost to the state and the student rather than themselves, so much the better. If they have to train at their own expense, they may not want the skills to be certified or transferable.
- Individuals, on the other hand, want the skills they are given to be broad, transferable and rewarded, allowing them to exercise choice and bargaining power in the labour market.

In light of this tension, provision, curriculum design and qualifications that might be efficient and effective for learners may not be seen as such by employers, and vice versa (Gleeson and Keep, 2004; Keep, 2012). This tension suffuses much of the writing about the purposes of E&T, and the principles that such an E&T system or market should be founded upon. For example, the Skills Commission (undated) recommends a learner-centric approach ('what is right for each and every learner') to design and delivery, whereas many employers want the goal of providing job ready workers to set the agenda (Gleeson and Keep, 2004; Keep, 2012).

As a result, the E&T markets, including those covered by FE, are a form of compromise, often shifting in balance across time and policy preferences, between what would best suit the needs of:

1. Individuals
2. Employers
3. Wider society
4. Government policy and aspiration

One of the key policy questions is the degree to which any of these stakeholders is willing to accept what are, from their perspective, sub-optimal outcomes as a result of decisions made by actors in the marketplace. This brings us back to the issue of who is perceived as the (primary) customer, an area where it was plain from our interviews that tensions have not been resolved. There is a "naïve hope" (as one official put it) that everything will align, with individual choices resulting in a positive equilibrium. The alignment of demand and supply was, it was assumed, just going to happen as a result of market forces, within what was sometimes conceived of as a very simple market model.

In the recent past in England, government and its agencies have proved to be impatient with what they see as imperfect choices and investment patterns (e.g. too few students choosing STEM subjects, the 'wrong subject mix' at various levels of provision, and a failure to meet employers' needs, however defined). Interestingly, exactly the same problems and shortcomings are perceived within the national E&T systems in Scotland and Wales, which suggests that the factors that underlie differing conceptions of optimal performance are not related to a choice between a markets-based or a systems-based approach, but rather are a reflection of fundamentally divergent interests among the various stakeholders.

What this suggests is that those in charge of the marketplace (government) should help to create the conditions and processes in which underpinning shared assumptions about what effective operation might look like and how it might be measured can be created across the different actors. If some of those party to the E&T market's operation either have radically different views about what it should be doing and whose needs it should be meeting and/or prioritising, or if they have unrealistic expectations about what it can deliver given its funding and other resources, then major problems will ensue.

Although colleges presently operate in a quite complex, high-stakes inspection, regulation and accountability regime, there is no commonly-agreed PMS for FE, nor a commonly-agreed definition of what are the appropriate KPIs that would denote and delineate good performance, above and beyond what indicators Ofsted inspections rate (see Hadawi, 2018). Some of those we interviewed argued that existing performance metrics are not always aligned with either market needs or policy, and may therefore not be fit for purpose. Also, the scorecard is sometimes marked in different ways for different market segments and providers.

What might good performance in this new and emerging marketplace look like? There is a range of potential indicators:

1. Institutional financial health and profitability/surplus/ reserve generation
2. Learner numbers and enrolments
3. Retention
4. Completion
5. Value added and learning gain
6. Destinations and progression (in education and the labour market), labour market outcomes, subsequent earnings trajectories
7. Increased financial surplus and profit
8. Local or national market share for given types and levels of course
9. Feedback and repeat custom from employers they undertake work for
10. English and maths resit scores
11. Successful inspection outcomes
12. The scale of local skills shortages and the degree to which the college and local employers are working together to jointly address these.
13. Social inclusion outcomes for those who are socially disadvantaged
14. Student satisfaction (measured and recorded)
15. Safeguarding issues
16. Value for money (measured and benchmarked)
17. Innovation and quality enhancement of both process and product

There are three problems. First, in the current policy set-up it is profoundly unclear who could or should define good performance (national government, ESFA, Ofsted, the FE Commissioner, CAs, employers, students, or colleges themselves). Second, as the Centre for Progressive Policy (2018) noted, the data to support useful performance metrics is often either lacking or poorly collated and analysed. Third, as things stand it is hard to see who would act to convene the different interested parties and to facilitate and mediate discussions about what good performance means. At present, government is content to allot the definition of performance to itself and its agencies.

The dominance of central government's model of markets?

This brings us to the highly centralised and top-down model that has survived a shift from system to markets in England. The tensions that exist within policy and which have been partially explored within this paper reflect the fact that policy is constructed, exists and is enacted at a number of different levels, each of which creates its own version of 'reality'. At national level, inside DfE, there is little pressure to seek to reconcile competing policy logics of markets, quasi-markets and elements of systems thinking, as the consequences of their inconsistency are not made material at this level. The ambiguity that exists is a problem that has to be solved by those at local and institutional levels. There is also the fact that in FE, unlike HE and schools, there remain sufficient vestiges of a systems model of funding allocation. The institutional memory of funding agencies, whose function has been to deliver a bureaucratic, planning-based approach, also remains, allowing an uneasy mixture of markets and systems-based models to co-exist across different funding streams.

As noted, one of the elements implicit in much of the national policy discourse around FE and vocational education is that both colleges and ITPs are seen as agile reactors to the demands and designs of others, responsive to, but not part of, strategic decision-making. In other words, FE is seen as having limited need for independent thinking and agency, and is not envisaged as having a major role in designing change and higher-level innovation. It is not 'scripting the future', but rather reading the lines written for it by others.

As ever, government has allotted this prime role to itself, and believes that on the whole its priorities can, if needs be, act as excellent proxies for employer and student demand, and that ministers should be able to retain the right to second guess the market when it suits them to do so. This model of a top-down, one-way policy street, where decisions made elsewhere by others are cascaded through education either via market forces and student choice, or by ministerial sanction or a mixture thereof, has been one of the abiding features of UK government policymaking in the E&T field for the last 35 years or more (Keep, 2006a, 2009 and 2012). There is a need for a thorough debate about the long-term utility of this model.

THE SCENARIOS

Introduction

The world in 2023 is very hard to see. What follows are three possible (partial) models of what could occur. They are not meant to be detailed forecasts of what will happen. They have been designed to help stimulate reflection on different visions of possible futures and to aid thinking about how best FE might respond to the potential challenges that these different policy trajectories might throw up.

A key point to make at the outset is that developing a scenario that delivers a desired outcome (however these might be defined) that would satisfy all colleges is impossible to contrive. Different institutions want different things.

Some colleges may want to develop a scenario that is tailor-made to their locality and circumstances.

From now to there…

Earlier in the paper a set of current trends were set out, and these are what potential new realities will be built upon. In addition, there are three other factors that will or may impact on FE in the years leading up to 2023:

Demography

Recent years have seen a dip in the English 16-18 population (approximately 15 per cent between 2015 and 2020), but thereafter it starts to rise again, and by 2030 should be 20 per cent higher than in 2020. These figures assume no outflow of EU27 families post-Brexit, no change in the balance of state and private schooling, and no further progress on raising participation age (RPA) rates.

Migration

The impact of Brexit on the volume of inflows and outflows of population is as yet unknown and unknowable until such time as a clearer policy steer is available. It seems probable that there will be a somewhat greater focus on ‘homegrown talent’ to fill skill needs, but the scale and nature of this shift is hard to estimate.

Recession?

Economic downturns in the UK and across the developed world appear to follow a cycle, with recessions in 1961, 1973-75, 1980, 1991 and 2008. It could be argued that by 2023 we will be due or already be experiencing another downturn in economic activity. Likely outcomes include rising youth unemployment, a tendency for more people to stay in education as they seek to ride out a tougher labour market, the potential for a counter-cyclical boost in investment in skills (which did not occur in the 2008 recession), and reductions in in-work training.

Scenario 1: Markets rule, tertiary institutions emerge in response

In the aftermath of the Brexit deal, the UK embarks upon a period of transition, as economic and trade policy seeks to find new lode stars, and as many aspects of national life and the economy and labour market adjust to new circumstances, challenges and priorities. Against this backdrop, the structural aspects of E&T policy are being driven by economic rather than educational theory. An ideological belief that markets or quasi-markets are the best mechanism for distributing scarce public resources has strengthened. Competition is seen as the most effective means of driving up quality in provision, and inspection and regulation are at best a necessary evil, and at worst sometimes a barrier to true, unfettered competition. There has been a rise in the use of rhetoric stating that ‘for profit’ provision in education would be a good thing and that it could motivate improvement and drive down cost. This viewpoint was neatly encapsulated by the Free Enterprise Group of Conservative MPs (which at the time included Liz Truss, Sajid Javid, Mathew Hancock, Priti Patel, and Andrea Leadsom) in a report published in 2015, titled *Towards 2025*. This argued that:

> *We live in a country where we allow people to make very good money for running a chain of restaurants or hotels, but not for running a chain of schools. We need to stop undervaluing those*

> *who have the skills and expertise to ensure that our children are numerate, literate and ready for adult life... we need to allow the profit motive to ensure real lift off.*
>
> (Kwarteng, 2015, 11)

The government states that its overall aim is to foster 'a healthy marketplace'. In this brave new(ish) world, system thinking is nostalgia!

The customer is...?

In pursuing a market model, government has arrived at a relatively firm position that the customer is whoever is making the choice of provider and/or who is paying for the provision (either directly, or via the levy). The mantra is that the 'customer is king', and a central belief is that well-informed individual choice (by student or firm) will, at aggregate level, produce the optimal skills investment outcomes. Planning and state intervention, viewed as 'second guessing', are out of fashion and favour. A purer form of marketisation has won out over NPM models. At the same time, there is a strong government desire for provision to deliver to employer needs, and a presumption that doing this will produce major economic benefits, not least in terms of productivity improvements. In a sense, employers are viewed as the privileged or prime customer, and the aim is for a market where, "there is a smaller gap between what employers say they want and what they say they are getting".

Fiscal constraint

Within a very tight overall government funding settlement, austerity lives on and appears liable to do so for many years to come given the state of the public finances and the many competing calls that are being made upon government (health, elderly care, housing, defence, transport, science and innovation, to name but a few). As a result, state funding for education and training is tighter than ever, and the main FE market segment (16-18 and 19) has a finite number of potential students within it, for whom FE has to compete with academies, UTCs, free schools, and a host of other institutions. A significant number of T Levels are being offered (particularly in pathways such as business) by MATs and UTCs.

Apprenticeship sees new entrants to the market

Although some areas of the mainstream FE market for vocational classroom and workshop-based provision have seen no significant influx of new entrants or challenger institutions, the same is not true in the apprenticeship, where a substantial number of university business schools and other university departments (e.g. engineering) have entered the field to offer higher level (degree and above) 'apprenticeships'. At the same time, there have been new private apprenticeship provider entrants, although very few are mainstream businesses trying to capitalise on their own training capacity (Keohane, 2017). This is for the simple reason that most firms, even large ones, have limited internal training expertise and continue to rely on external providers to organise and deliver their apprenticeships. However, various new players in the apprenticeship market are abstracting a considerable proportion of the levy funding. The 16-18 apprenticeship market has shrunk quite considerably and, as a result, some independent providers have gone under or retreated into non-publicly funded work.

Adult loans-funded learning: scams and scandals

At the same time, competition in the loans-funded post-19 Level 3 and above segment has also intensified, as ITPs have taken opportunities in an area of the marketplace that is less visible to public policy scrutiny and where quality control is harder to enforce. There have been numerous scandals as providers have scammed students and then closed down, have failed to deliver on their promises of quality provision, or have claimed funding for 'ghost' students. In this area, English experience has continued to mirror what happened in Australia when their TAFE system of vocational provision was marketised and opened up to private sector competition (Wheelahan, 2016).

Enter the dragon: the move to tertiary provision

The biggest change in the level of competition, however, has come from the HE sector. This is because government has come to recognise that mass HE based on resident away-from-home, three-year full honours degrees is expensive, and that the failure of many students to repay their loans is leaving a mounting volume of debt that will need to be written off. There has, therefore, been a policy push for growth in cheaper sub-degree provision. The overall impact has been a downturn in applications for full-time, 18-24, three-year degree courses, and the gradual shift in the pattern of provision has accelerated (growing student numbers in Russell Group institutions as they expand their physical 'footprint' and somewhat lower their entry tariffs and a marked decline in applications to lower tariff HEIs, such as the Million+ Group). There has also been a limited number of new 'challenger institutions' that have entered the English HE market from overseas or as new 'start-ups', although far fewer than the government had hoped. A significant number of existing HEIs are now teetering on the brink of insolvency, and some universities have found themselves in desperate need of new markets and customers.

As a result, one response has been for HE to move downwards into provision normally seen as the preserve of FE, following the logic of vertical integration down to Level 3. The starting pistol for this development had been fired by institutions such as Ravensbourne (a design and digital media university college based in London) but was given added impetus by the government's 2018 inquiries into post-18 funding and provision at sub-degree level (Levels 3, 4 and 5), coupled with the concept of IoTs, which suggested a coming together of HE and FE could be beneficial. The result has been a significant expansion in some subject areas and occupations of sub-degree level courses, accelerated degrees, and the further development of unconditional offers to prospective students coupled with HEI-provided access courses and foundation years.

Some HEIs, particularly low tariff institutions that are the dominant provider in their locality or city, have gone further, merging with the local FE college and in some instances vertically integrating with local schools by taking control of MATs and expanding UTC provision in their area. They are now consortia institutions that span many different elements of the market. In other words, we have moved from a world where there is FE and HE to a model that sees tertiary institutions span rather blurry lines with upper-secondary phase provision. There are several logics driving this development. The institution spreads risk because it has access to a wider range of student types, market segments and funding streams. By running schools, it can use these as 'feeders' into its post-18 and 19 provision at degree and other levels. The new hybrid institutions can operate: centralised one-stop work placements; careers and information, advice and guidance (IAG); and business liaison services with the associated economies of scale and increase in effectiveness. These new arrangements also, paradoxically, reduce local competition, and there are towns and cities where the local authority has encouraged the formation of this extended model of provider as a means of having a 'local' champion that brings with it some element of coherence in provision.

In some instances the operation of the local FE college has been absorbed into the new tertiary institution. In others, the expanded HEI and its feeder network have decided to act as rivals to the local FE college, have run their own 16-19 provision (e.g. T Levels), and are aiming to squeeze the FE college into a narrow niche of delivering what could be termed low status provision for residual groups. This provision includes English for speakers of other languages (ESOL), adult literacy and numeracy (ALN), community learning, and 16-18 students on the 'transition year'. The new HEI dominates higher-level and higher-status vocational course provision.

A smaller number of FE institutions have moved in the opposite direction and obtained degree-awarding powers, but find themselves competing in a crowded marketplace. Colleges have an edge where they are offering subjects that their local HEI cannot, or where there is no other local tertiary provider. At the same time, a growing number of colleges have started to curtail second chance and social inclusion provision as it is no longer deemed financially viable. A business logic is being imposed on patterns of provision. Third sector providers and colleges that are clinging on to their social inclusion role are being expected to fill the resultant gaps. The old model of the general FE (GFE) college is in decline. Many colleges are specialising in particular forms or levels of provision where they believe they retain a local competitive advantage, and college chains are continuing to expand, as scale and geographical spread is seen as a way of mitigating risk and securing economy of scale advantages.

The AEB: limited impact

The impact of the devolved AEB has been limited in most places. The sums of money involved are relatively small and much of it is committed to nationally determined adult entitlements. As noted in our previous project for FETL (Keep, 2016), what has been devolved from central government to localities is a set of hard and potentially unpopular decisions about what to spend money on and, more importantly, what will not get public support, along with the 'blame' and political problems associated with it.

While some of the CAs and city regions (e.g. London and Greater Manchester) have tried to use the AEB as the starting point for the creation of a local system, progress has been limited as the provider base in these large areas remains relatively fragmented and the government has resisted calls to broaden the devolution settlement to include any aspect of schooling, apprenticeship or HE. The education and skills elements of the UK Shared Prosperity Fund, which the government introduced to replace European Social Fund (ESF) resources post-Brexit, are being tightly overseen by DfE. There are even murmurings from government questioning whether devolution of the AEB is delivering value for money and an implicit threat that the spending might need to be re-centralised.

The big picture

The overall result of these developments is that, in many areas of the country, FE is being squeezed extremely hard. In others, it has either been marginalised or is in the process of vanishing entirely as a separate institutional form. It is becoming a set of streams of students and provision that are incorporated into a much broader school, tertiary or adult provider consortium or group. Where it has not been absorbed into these new mega-providers, FE colleges are trying to consolidate through a further round of mergers and strategic alliances between colleges, and also sometimes to pursue their own version of vertical integration through further development of 'feeder' schools, MATs, UTCs, and the purchase of private providers.

Public policy has reacted in different ways to these developments. On the one hand, government can see the commercial logic and indeed imperative of consolidation, and institutional reinvention is one of the few forms of bottom-up innovation that it wants to encourage. The economics textbook sees supply as needing to be highly reactive to new patterns and forms of demand, and what is occurring conforms to model. On the other hand, it is increasingly uneasy about the emergence of what in some instances could be described as local monopolies or near monopolies in segments of provision in some localities. Indeed, in one or two instances, what has developed could be thought of as an integrated local 'system' of secondary and tertiary provision under the umbrella of a single organisation.

The other problem for government is that the new hybrid institutions are a regulatory nightmare. Who inspects and regulates which elements of the new extended providers? Does any single agency (Ofsted, the FE and Schools Commissioners, the OfS, QAA, ESFA, the Institute for Apprenticeship and Technical Education [IfATE]), have oversight of provision and, if not, how can the different agencies be brigaded to work in an integrated fashion to oversee the marketplace? At a more fundamental level, some in government and think tanks are asking whether the post-18 and 19 market(s) need more than the lightest-touch formal regulation, as most of the adult provision is loans funded and decisions are taken by adults.

In terms of institutional governance, the new market models raise a number of questions. At what level is governance to take place if the organisation is now in effect a chain or grouping (with varying degrees of integrated operation) that spans what used to be several separate institutions? Some of the expanded former HEIs have retained a single board of governors for their entire operations, and the FE component is now simply a department or sub-division within this greater whole, with no separate governance mechanism of its own. At another level, with the safety net of secure government funding having been removed, running a college is a risky business, and governors have major responsibilities to deal with, not least in terms of trying to arrive at a suitable and sustainable balance between income (and potentially surplus) maximisation and the meeting of wider community responsibilities.

Scenario 2:
A mixed economy, a messy marketplace and policy tensions

Two steps forward, one step back…

Against a backdrop where public funding remains extremely tight, public policy continues along traditional tramlines that encompass what some commentators have described as a 'double-shuffle' (Hall, 2005; Spours, 2017). Under New Labour, the double-shuffle was two steps forward with systems, central control and planning, and one step back with contestability and marketisation (Hall, 2005). Now the relationship is reversed, and policymakers at national level hanker after the paradox of a marketplace that has, overlaying it, elements of systems-based behaviour, particularly coordination and cooperation, in relation to particular student/customer groups and selected policy goals (see the DfE's *Social Mobility Plan* from 2017 [DfE, 2017a] as an example).

Overall, they want the best of both worlds, and believe that with the right combination of accountability systems, funding and other incentives they can achieve a balance between competitive behaviour and cooperation. On the whole, however, when the chips are down, marketisation remains the dominant strand, and countervailing priorities around a cooperative approach remain the subordinate element.

Who is the customer and how do you match supply and demand?

Besides wanting marketplaces that contain elements of cooperative behaviour, policymakers at national and, in some instances, local level have still not been able to fully confront and reconcile who the customer is within the various E&T market segments, and how far they let customers' requirements drive policy. As a result, the policy rhetoric continues to stress student choice, a student-centred model of provision, and individual returns to investment in skills. This is reinforced by outcomes-related funding which means that FE colleges are, "a business where each learner is £4,000" (Illsley and Waller, 2017: 487), where learners are assets and, "students can't fail: all students must pass or we have done all the work for nothing… there is no point if we don't get any money for them" (Illsley and Waller, 2017: 485).

However, government is still talking about employer leadership, the need for provision to match and meet employer needs (however defined and articulated), and the vital importance of serving the needs of the economy and labour market. The convenient assumption is that atomised individual decisions made by prospective learners will, largely through the magic of the market, wage signals, improve information flows and rational self-interest, and deliver a pattern of student demand for learning (in terms of levels and types of course) that match what employers want. Again, the double shuffle comes into play, and policymakers have deployed elements of indicative planning for provision (as exemplified by the SAPs) with the aim of achieving the long-term goal of 'matching' skills supply with employer demand (whatever that might mean in practice). Indeed, they hold to the view that the shared objective that spans both market and systems-based approaches to E&T is the need to achieve better matching (at whatever level) between supply and demand.

There are good theoretical and practical reasons, as well as a long history of mismatches, that suggest this assumption will, in many instances, prove to be misplaced (see Keep, 2002; Keep, 2009; Keep and James, 2010; Keep, 2012; Davis, 2015) and that there are often fundamental tensions between what individuals and employers want. Given how the public policy discourse around skills has traditionally been constructed, policymakers at both national and local levels continue to struggle to square the eternal triangle of:

- Employer skill 'need', which is often short-term and incredibly firm specific (see Green et al, 2017a, on how this plays out in the West Midlands)
- Individual student demand for courses, some of it unrelated to their current employer's needs (e.g. career change)
- Course supply (provision)

As one college principal put it, "colleges are the mediating point between the needs of employers and the needs of the wider community and individuals", and this is not always a comfortable place to be.

The result is that colleges and other providers continue to be chided for failing to deliver what is wanted, and there is ongoing angst about the volume and quality of STEM provision, skill 'shortages', and employers' pleas for more and better skills supply to meet their needs. Moreover, when push comes to shove, central government is clear that, in some instances, power and control of how policy plays out is far too important to simply be handed over to customers and market forces.

Institutional failure: repercussions

Due to funding pressures and significant falls in post-19 participation and undergraduate applications to lower tariff HEIs, a number of colleges and HEIs have become insolvent and closed down. In FE the insolvency regime introduced in 2018 has worked, in the sense that it has allowed for a relatively orderly winding down of a college's affairs, but the political fallout from college and university closures has been significant and has taken ministers by surprise. In many instances, the college or university had been the largest employer in the town or small city (sometimes alongside the local hospital) and the loss of this anchor institution's staff wage and student spending power has wrought havoc on the local economy. In a number of cases, these college closures have happened in rural or semi-rural areas, where weak local transport links mean that there is no alternative provider to whom students can transfer. Consequently, a significant hole has opened up in the pattern of provision available to young people and adults. So far, new entrants have not been racing to fill these voids.

These developments do not sit comfortably alongside the government's place-based narrative regarding areas of the country that have been left behind and the need to spatially re-balance the economy in the interests of social justice. Furthermore, the MPs in whose constituencies this has occurred have been aghast, and with several more colleges and HEIs now close to bankruptcy, the pressure is on government to find ways to avoid further closures. On the other hand, as officials and special advisors remind ministers, this is exactly what was supposed and indeed intended to happen as a result of marketisation, with ineffective providers encouraged to withdraw from the market.

Tensions between national and local levels emerge

A number of flashpoints have emerged in the relationship between national government and its agencies, and localities:

1. Between national focus and stress on markets and contestability and the CAs' enthusiasm for developing stable, integrated systems of provision that rely on cooperation rather than competition. Other localities want the freedom and power to follow this example.
2. Between localities' desire to expand their control beyond the AEB, and national government's ongoing refusal to countenance further devolution of funding or policymaking powers.
3. Between national policy models that continue to conceptualise and operate via individual policy silos (skills, science, innovation, economic development) and an emphasis on traditional skills supply models and some CAs' attempts to join the dots and develop more integrated policy offerings that achieve inclusive economic growth and see the role of skills in a much broader context (supply, demand and use).

In terms of point 1, while some CAs have gone down a simple commercial tendering route in order to allocate their AEB monies, most have opted to try (at least on paper) to create some kind of local system. They seek to use the AEB funding as a catalyst to develop increased cooperation between providers and more capacity for planning provision, particularly as potential calls on the AEB significantly exceed its scale. They have also introduced stakeholder boards to coordinate action and to allow non-market-based forms of influence on provision. For all the non-devolved areas of funding, national government still wants to deliver contestability and a marketplace. Moreover, in most CAs, AEB spending priorities that were inherited with this pot of money have continued. As a result, Greater London's AEB has largely been allocated towards priorities around English and maths, ESOL, digital basic skills, adult and community learning, disadvantaged learners, and SEND. It is therefore focused primarily on core employability skills, rather than higher-level tech skills. In other words, these priorities have very little to do with the glossy government agenda of skills at Levels 4 and 5, IoTs and technician skills, or with local industrial strategies focused on, for example, advanced manufacturing, life sciences and automotive. In addition, it is not necessarily the agenda that many employers would prioritise. AEB is mainly supporting lower end, disadvantaged groups of learners. There is a limited 'match' to the government's Industrial Strategy. Given that potential calls on the AEB vastly outweigh the resources available to deliver them, there is a need to motivate stakeholders to leverage other funding. This is proving extremely hard to engineer.

With regard to point 2, as set out in Keep (2016), from the outset of the devolution debate in England, city regions, CAs, counties, the Local Government Association, LEPs and various think tanks all indicated a desire and argued the case for localities to acquire funding and policy powers that extended beyond the limited offer from central government of control of the AEB to the CAs. These aspirations have grown, and the larger CAs, such as Greater Manchester and Greater London (see GLA, 2018) have become increasingly frustrated at central government's continued refusal to allow them any direct influence over:

- schools policy and an ability to intervene in failing schools 14-19 policy and the post-16 budget
- traineeships
- apprenticeship policy and funding, and advanced learner loans
- elements of the Department for Work and Pensions' budget for skills and training

As a counterbalance to central government, CAs are liaising with one another, and attempts to learn and share knowledge have grown into an alliance, pushing for further devolution of money and power. This standoff means that the vast bulk of policy direction is still set at national level.

In terms of point 3, which is an area of national and local policy dissonance, a major opportunity has arisen for colleges in those localities where the CA has been able to develop thinking around a more sophisticated package of policies in relation to industrial strategy and inclusive growth. Under the government's Industrial Strategy established in 2017, CAs were charged with developing their own localised version of a national approach. These developments coincided with a major push, led by the Joseph Rowntree Foundation and others, around the need to promote fair work and better quality jobs in order to tackle in-work poverty, social exclusion, un- and under-employment, weak social mobility and limited pay progression.

As a result, a new policy agenda has emerged based around socially inclusive economic growth and fair work, which plays to FE's core strengths (vocational skills and second chance education). Greater London, for example, has developed policies and strategies that span and link up fair work, inclusive economic growth, business support and skills. It has also been argued (Lupton, 2017) that, in addition to linking up skills with other policy areas, education itself needs to adopt a more integrated and sophisticated approach that embraces human development across the life course, and this has been incorporated into the emerging policy model. These developments have mirrored Scottish policy, where the government has maintained efforts to integrate skills policy and delivery with the work of its economic development and business support agencies, and to create a national labour market strategy that helps link skills to job and pay progression, encourage better use of skills by businesses, re-train workers to meet challenges posed by economic change and new technologies, and retain older workers in employment.

Some FE colleges have been able to help deliver important elements of this new, more integrated policy model. The concept of FE as local economic and enterprise catalysts and hubs had been around for many years (Sharp Commission, 2011), and the new policy focus on local economic development and socially inclusive growth has provided the perfect context to develop this opportunity to provide local leadership.

There are two problems. First, this level of sophistication is not mirrored either in national policy or across all localities. Some CAs have clung on to a very traditional skills supply and demand matching model reminiscent of the Learning and Skills Council (LSC) in the mid-2000s, and as a result the AEB has been commissioned in a haphazard fashion, with little or no strategic intent. Even the larger CAs have struggled to develop the capacity to cope with a more ambitious and joined-up policy offer that spans skills supply, demand for skills and some elements of skills deployment. This has proved extremely hard to fund, create and sustain in the absence of a national policy lead.

Post-incorporation freedom: what does it mean in a marketplace?

Experience has come to suggest that the multi-agency approach to the regulation and oversight of FE (ESFA, OfS, FE Commissioner, Ofsted and CAs) is too complex and is not preventing some institutions from becoming insolvent or ensuring the desired quality of provision. Rather than blame systemic funding pressures, government has chosen to re-cast the regulatory regime, and plans are now afoot to create a single, overarching regulator for FE, to mirror (to some extent at least) the OfS for HE. These proposals bring with them the implicit threat of a powerful regulator and the ability of the government, through the direction of the regulator, to bring to bear even greater and more detailed control over what colleges do.

Many colleges therefore find themselves grappling with a set of questions concerning what it means to be independent institutions facing a set of competing and divergent demands (see various contributors to Rimmer et al, 2018). Colleges are 'free', but free from what, to do what, and to what end? This scenario plays out in marketplaces where competition is high, funding tight, and different stakeholders at national and local levels want different behaviours and outcomes.

These questions are given greater weight (in this scenario and in Scenario 1) by the fact that national policy is reliant on contestability, coupled with a traditional top-down policy formation, which leaves limited room for FE to take the lead and co-create, let alone set, the agenda. In a market, particularly one like FE where the 'products' (i.e. qualifications) that the provider sells have been designed by other parties (government, employers and awarding bodies), the main role for colleges is to be agile responders to policy priorities and market forces. With the exception of innovation to try to expand markets (sales and outreach) and improvements in product and service quality, college management's main need is to react to customer signals, preferences and choices, and whatever targets and priorities the government has and has embedded in Ofsted's inspection system. Management is meant to be largely tactical, with an agenda and priorities set by customers and government.

Scenario 3: The re-discovery and re-invention of a systems approach

Although current policy thinking tends to focus on marketisation, and despite the fact that the drift towards markets, contestability and choice has been taking place under governments of all political persuasions (New Labour, the Coalition and Conservative), further marketisation is far from being a done deal. In a move that has attracted less attention than might perhaps have been expected, the Labour Party's 2017 manifesto called for the development of a National Education Service (NES). The limited available details about NES suggest an explicit retreat from markets and competition, and instead a renewed emphasis on traditional models of locally-based systems of provision and accountability, married with what is the possibility of a more favourable overall financial settlement for education and a new focus on entitlements to lifelong learning (Camden, 2018d). It is this vision that the following scenario explores.

Overview

The government has devolved funding for apprenticeship, adult FE and new streams of money to support adult re-training and upskilling in support of economic development to both CAs and to other local authorities. Spending on lifelong learning, including the adult and community sector, has increased somewhat, and linkages have been forged between skills and other areas of policy, such as health, although the NES finds itself in competition with the government's many other urgent priorities when it comes to public funding.

As the aim has been to restore some element of 'local democratic accountability', LEPs have been bypassed and most of their economic development functions have been re-integrated into local authority, CA and city region control, so that they set, monitor and allocate resources. Debates are ongoing about whether and how funding for schools should be devolved, and how localities can better influence the 14-19 phase. There is a stress on accountability to users, and on trying to integrate education and skills policies with other areas of public policy and public service delivery.

One of the overall aims, for both central and local government, is to start to join up:

- economic development
- business support and improvement services, workplace, and other forms of innovation
- fair work, job quality and skill use issues, and more traditional skills supply policies

In other words, the kind of model that Scotland and some of the CAs were developing (Green et al, 2017b) has become a much broader template for policy development and action.

New national and local institutional structures

Although the rhetoric is of devolution and local control, both civil servants and ministers cannot shed the now deep-seated tradition of wanting to maintain oversight of the levers of power. While they apprehend that there is a new balance to be struck between centre and localities, they are as yet unsure where the overall point of that balance should lie. 'Local democratic accountability' is a neat slogan, but its design and delivery is proving quite complex in a world where a range of providers – including schools (of various sorts and with widely different governance structures and models of accountability), local authority-based adult and community learning (ACL) services, ITPs, varying forms of FE college, sixth form colleges, and third sector providers – now deliver 16-19, apprenticeship and adult provision. To put it another way, now that the contestability genie is long out of the bottle, putting it back in and reverting to a traditional systems-based approach is hard to engineer. Moreover, as noted in an earlier FETL report on devolution (Keep, 2016), some colleges and many other providers (e.g. MATs) are now organised in chains that span multiple localities and therefore local authorities. Marketisation has produced a very different organisational logic from that which pertained under local education authority (LEA) control in the 1970s, and many providers (including some colleges) have learned to love their autonomy.

Consequently, the NES faces a set of hard realities, one of which concerns the fact that in 16-18 and 19 provision there are a finite number of students and therefore the relationship between schools and colleges in any given locality and catchment area is essentially now one of competition. ITPs are still keen to compete for business in a range of FE market segments. In a world where funding is finite, cooperation and sharing between the different public and private providers has proved hard to contrive. As a result, the government is experimenting with the development of a funding system that incentivises cooperation within localities, rewards collaboration and discourages high levels of competitive behaviour. There is a move back towards student number allocations for individual institutions linked to local skills planning systems.

Some colleges are fearful of 're-incorporation' and of what growing accountability to local authorities might entail. Having spent many years being encouraged to adopt a 'wheeler-dealer' mentality and to be highly responsive to opportunities in the market, some college managements are struggling with the notion that cooperation and partnership are now the order of the day. As noted under Scenario 2, there is a longstanding debate within FE about the merits of incorporation and what it means in terms of the types and limits of the 'freedoms' it grants colleges (see, for example, various contributors to Rimmer et al, 2018; Hodgson and Spours, 2015). The reversion to a systems-based ethos for education and training has added impetus to these debates. A process of cultural and commercial 'readjustment' is ongoing.

As a result, there are different governance and accountability options on the table for FE, ranging from some form of re-incorporation (whereby colleges return to direct or arms-length local authority control), to a spectrum of new models of local collaborative arrangements (tailored to circumstances in each locality), to the use of sophisticated agreed contracts and outcome agreements as a means to deliver lighter touch accountability. Given the costs, complications and legislative requirements of re-incorporation, the latter type of model has tended to win most favour, but the threat of 'direct rule' by local authorities remains in the background, not least as a means to spur change.

Creating common interests and goals

This new stage of devolution has also meant that there is an ongoing dialogue and debate about exactly who should be responsible and take the lead for which aspects of policy and delivery – for example, inspection). Developing new institutional structures as an interface between central and local government has not been easy and development work is ongoing. Some localities are happy with what they have been given, some are struggling with their new responsibilities, and some want far greater power and funding than they have been allotted.

There are models available to structure a more cooperative set of relationships between:

- providers
- providers and employers
- providers and other stakeholders in their locality

While these include the ecosystem and social ecosystem approaches (see Hodgson et al, 2017b), making them work is not easy, as Australian experience bears out (see Eddington and Toner, 2012; Buchanan, Anderson and Power, 2017) and takes time, investment and considerable developmental work. Some localities have made progress on developing this kind of approach, while others are struggling to discharge their basic education-related responsibilities in a competent manner.

Integrated institutions

These developments have, perhaps somewhat paradoxically, resulted in some of the market-led elements of integration described in Scenario 1 emerging at local level in this scenario. A locally-based system has, in certain towns and cities, led to cooperative and partnership working (and in a few cases institutional mergers) that have shifted towards a tertiary, all ages provider model. Where school sixth forms are less well entrenched, a more joined-up model of 16-19 provision has emerged, building on pre-existing models from some parts of the country – for example, East Lancashire and Exeter (see Ecorys, 2012; Birkinshaw, 2018). At the same time, as in Scenario 1, the realisation that three-year, Level 6 full honours degrees are often not what is needed in many associate professional and managerial occupations, pressures on the HE loans system, coupled with the experience of the first tranche of IoTs, has led to a revival in sub-degree provision, not least part-time provision for adults in work (the original model for the now long-forgotten foundation degrees). Alliances of FE and HE can often best deliver this provision at a local and workplace level. At the same time, the renewed emphasis on adult re-skilling, lifelong learning and the revival of adult education has underscored the logic of partnership working between FE, HE, existing local authority adult services, and a wide range of community and third sector groups.

Capacity issues

Alternative futures require both the intellectual resources to imagine, envisage and advocate something different from the status quo, as well as the capacity to develop and deliver new models of policy. Both have been found to be lacking for a return to a systems-based model, and for policy to move beyond skills supply and embrace the much more complex set of issues that link supply, demand and usage. This capacity issue has impacted at both national and local levels. Within central government, civil servants have struggled to re-orient themselves away from a reliance on marketisation, which has been part of NPM orthodoxy for the last three decades and has formed an integral pillar of official assumptions about how best to configure and manage the delivery of skills.

At local levels, local authorities have been forced to recreate some of the capacity and capabilities that used to underpin the LEAs of old. Knowledge and expertise have been in short supply and there is nowhere obvious to turn for staff training and development that spans skills, vocational training, the labour market and links to economic development. Moreover, insofar as there are individuals with a memory of older models, most come from an LSC background that brings with it a very top-down, plan and match approach that is entirely focused on traditional target-driven, supply side concerns, and brings little to inform wider attempts to integrate skills with the economic development and innovation agendas.

This problem has been compounded by the loss in England of capable intermediary bodies of the kind that still exist in Scotland that can deal with skills system management and institutional oversight (Skills Development Scotland [SDS] and the Scottish Funding Council [SFC]) and economic development and business improvement (Scottish Enterprise [SE] and Highlands and Islands Enterprise [HIE]). The removal of arms-length intermediaries with some research capacity and staff with the expertise to establish useful relationships with the institutions they oversee, as well as to mediate and interpret policy (e.g. UKCES and HEFCE) is a major problem. England has found itself with bodies that are either regulators and/or narrowly focused formula funding bureaucracies. All of the discretion and thinking capacity has migrated, intentionally, to central government, and therefore the agencies that the government inherited had minimal infrastructure for engaging at anything other than a superficial level with localities. Developing anew the ability to deliver a more decentralised, distributed model that engages directly with stakeholders, including providers, and which incorporates feedback loops that allow the frontline to tell policymakers how their policies are playing out in reality, are very hard to contrive given the cultural and practical inheritance that the government is confronted with.

The same is true in terms of the collective representation and organisation of employers. The Conservative government's decision to abolish UKCES and to remove government support from the SSCs, in order to move to a set of one-off clubs or groupings of enthusiast firms (trailblazer groups), means that the infrastructure needed to engage with employers and to organise them to act collectively on skills and economic development issues is now lacking in many sectors. The problems are also acute at local levels, where CAs and others are finding it extremely difficult, even in large conurbations, to find effective mechanisms through which to work collectively with employers on a sectoral or occupational basis.

Employers: from customer to partner?

Under Scenarios 1 and 2, the primary role of the employer is to act as an informed and demanding customer in a marketplace, seeking out high quality and keen value for money. FE, in turn, needs to respond to these demands in order to thrive. The relationship is essentially a one-way street, with employers receiving the outputs of the education system, which have often been paid for by general taxation or by individual student debt, and against a backdrop where employers' training investment is often falling and where training volumes (measured in hours or days of training) continues to shrink. Firms are generally not seen as, or expected to act as, an integral component of national E&T provision. Even in apprenticeship, most employers are relatively passive purchasers of bought-in design and delivery of both the on-and off-the-job elements of the process.

On the whole, most employers and those that represent them have been happy to accommodate this traditional model and the passive role that it allots to them. They have become used to handing over 'shopping lists' of skill requirements to government and its agencies, lobbying to see these met and in return doing, and paying for, relatively little. They have become 'welfare dependent'.

Under Scenario 3, this very traditional model of how industry and education interactions should be envisaged and operationalised is undergoing radical and, for some, uncomfortable change. The new model aims to create a genuine two-way street, with shared responsibilities and an increased expectation of what E&T employers will fund long-term. It also seeks to provide for their existing workforce, joint training and instructional capacity development, and closer links between skills provision, work re-organisation, job re-design and upgrades in business strategy that boost the demand for skills and increase the likelihood that skills will be fully used within the workplace (Keep and Mayhew, 2014). Co-production, not least of T Levels and apprenticeships, is the order of the day, and supporting employers to deliver this is a priority. The new mantra is that 'colleges are working in partnership with, not just for, employers'.

To reflect these developments, the Education and Training Foundation's (ETF) remit has been broadened to cover employers' training and human resource development. SMEs are being encouraged, at both sectoral and local levels, to band together to create shared training and development capacity and expertise, and to set up Group Training

Associations (GTAs). At a broader level, considerable time, energy and effort is being sunk into concerted attempts to develop collective employer capacity to engage with the E&T policy agenda. This means support for industrial partnerships, new sectoral bodies, and new and/or enhanced local representative organisations for employers. As both national and local government have finally realised, without such intermediary capacity (Martin and Swank, 2012; Martin, 2017) schools, colleges, HEIs, and national and local training agencies are left trying to engage with an atomised mass of employers. Many of these are small or micro-businesses, whose capacity to deliver usable skill demand forecasts, organise work placements or design, plan and deliver high-quality qualifications, apprenticeships or adult training provision is often nil (see Hodgson et al, 2017a, for a useful discussion of this issue).

Many employers, especially SMEs, have reacted with fury at the expectation that they need to do and pay for more. 'Burdens on business' and 'anti-business government' have been just two of the slogans directed at government. The NES is a work in progress.

Final thoughts and questions

Strategic lessons and policy asks

This paper notes a number of unfulfilled and/or incomplete items on the policy agenda, as well as a number of fundamental tensions within existing policy. In thinking about the future, FE may collectively and individually need to give further thought to:

- **Competition versus cooperation and the incentives needed to create and sustain collaboration**
  If the goal of current policy is to arrive at a situation where we possess a market that also encompasses elements of systems-like behaviour and cooperation, then what kind of incentives structure would support this development at either national or local levels?

- **Single regulator versus diffused regulation**
  At present, regulation and accountability is complex and convoluted. Is there an argument for trying to consolidate the regulation of FE markets under a single overarching body or structure for cooperation between existing bodies, or are the dangers of an overly directive regulator likely to outweigh any advantages from this development?
- **National market versus local priorities (local versus national rewards)**
  Particularly for those colleges that operate within the boundaries of a CA, there are questions about the degree to which devolution and new policy agendas at local levels offer opportunities for colleges to broaden their mission and grow their role as anchor institutions and centres of economic development and community cohesion and support?
- **Higher-level and higher-status provision versus second chance and social inclusion**
  Are there choices to be made between trying to move upwards into a 'tertiary space' and a stronger focus on higher-level provision and maintaining lower level provision (Level 2 and below)? More broadly, will economic forces push colleges to gradually abandon some streams of activity as they are no longer financially viable? Where will this leave the learners who require this provision? Are policymakers sufficiently aware of the pressures that may force such choices to be made?

General questions:

1. Which scenario looks most plausible, and why? Which looks most desirable, and why?
2. Are there other scenarios that can be suggested? What are they?
3. What can FE colleges do, individually and collectively, to influence how policy develops? Who are the audiences that need to be addressed?
4. Who, either in a market or a system, is the primary customer? Although DfE rhetoric around informed student choice stresses the student as an individual customer, the reality is that for many of the market segments that colleges are working in, such as 19+ loans funded, non-levy apprenticeships and un-

devolved AEB, the college is competing with other providers for tranches of ESFA funding and student number allocations. Who, therefore, is the customer? ESFA and government, students and/or employers? How do employers and especially students make their voice heard? When is the employer really the customer? Is the answer to this, when they are paying for it themselves – for example, adult workforce development and levy-funded apprenticeship?

5. System versus market. The DfE likes market rhetoric but also wants the best bits of system on occasion – for example, the Social Mobility Plan (2017). Can you have a market with elements of system-like architecture and behaviour grafted on?
6. Is inter-institution cooperation possible in a market, except through sub-contracting or other formalised mechanisms? Why would a college cooperate with local schools when all are locked into a life or death (see UTCs, for example) fight for student numbers and survival?
7. What role does and should price play in competition? In economic textbook models of market, a large one, but in the reality of FE how important is it? Is brand the more important factor, and if it is, what does this imply for government plans?
8. In the HE world, there is a clear market regulator: OfS. In FE there is no regulator. What are, or should, be the roles of:
   a) Ofsted
   b) FE Commissioner
   c) IfATE
   d) ESFA
   e) DfE (particularly in regard to superintending the new market in FE). Should there be a new, single super-regulator? More generally, what do we want the role of national agencies to be? What capabilities do they need to possess?
9. What mechanisms are available to the student customer to complain about the quality or value for money of what they are receiving?
10. What denotes and measures quality in this marketplace?

11. How are tensions between a system-based AEB and markets for everything else (Scenario 2) likely to play out?
12. Does a more active role in economic development and its links to skills make sense for FE (Scenarios 2 and 3)? What needs to change to make this happen?
13. Vertical as opposed to horizontal integration. Is the creation of a more joined-up ‘tertiary’ offer an important avenue to explore (Scenarios 1 and 3)?
14. What does local democratic accountability mean? What are the implications of greater local accountability and influence on the operation of colleges? Can the national level surrender power to localities? What structural changes would be needed?
15. Does a skill ecosystem approach make sense?

Scenario table

	Scenario 1: Markets rule	Scenario 2: Markets and localities	Scenario 3: The National Education System (NES)
Overarching model	Market	Market and system	Predominantly system
Accountability	Customer and national state	Customer, national state and locality	Customer, stakeholders, national and local state
Funding	Constrained	Constrained	Slightly less constrained
Institutional responses	Vertical integration by HEIs	Institutional failure and intense competition	
Issues and tensions	Localism constrained; market versus targets versus government aspirations; scams and 'fiddles'; regulatory issues; local monopolies	Individual versus employer as customer; national versus local; wide variations between localities; market versus system; problems caused by closures	National versus local versus stakeholders' interests; democratic accountability; common goals in a fragmented environment; management and policy capacity; employers unhappy at demands for a more active role

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