



LOCAL ACTION, NATIONAL SUCCESS: HOW OUTCOME AGREEMENTS CAN IMPROVE SKILLS DELIVERY

Foreword:

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The UK economy has been growing robustly since the start of 2013 but we are still facing some long-standing challenges. To bring about the improvements we need in productivity and social mobility, partners across local areas need to be working together and focusing on achievement on a wider range of outcomes, not just educational attainment. We need to consider a new, wider approach to understanding skills priorities, and holding partners accountable for addressing them.

We think local outcome agreements can help to stimulate new ways of working and have partnered with the Association of Colleges to explore how this could work in England, focusing particularly on the role of further education colleges. In doing this we have drawn lessons from similar approaches implemented elsewhere in the world to develop eight propositions which can help shape both policy development and activity on the ground.

The central message is that an outcome agreement is not about a piece of paper. An outcome agreement involves real commitment from partners in a range of sectors, brought together by a common need to tackle skills issues, with collaborative accountability, desire and need to achieve this. It has to be underpinned by robust, quantitative data and balanced with local intelligence. But crucially, more important than the outcome agreement itself, is the process of developing the agreement, the dialogue this creates, and the relationships that it helps to develop across local areas.

A move to this approach as a systematic way of working is a challenging and complex task. We are not proposing a quick fix, but a gradual shift towards a different culture and way of working. As a senior leader who has worked for many years at a local level I fully understand the tensions and pressures of working with other organisations. But equally I also understand the benefits that taking an open approach and embracing new ways of working can really bring.

There are some solid foundations for us all to build on. Our discussions identified a number of local areas in England which are developing a greater understanding of their skills needs, and forming strategic partnerships between education providers and employers, often brought together by economic players such as Local Enterprise Partnerships or Combined Authorities. This can go much further. Local areas don't need permission to start to develop an outcome agreement. Increasingly available data and strong relationships across local areas provide a robust base to work from - right now.

We hope that the work we've carried out helps to stimulate debate, shape the future policy direction and provide guidance for implementation.

Foreword:

Martin Doel



A handwritten signature in black ink that reads "Martin Doel". The signature is written in a cursive style and is positioned above a thin horizontal line.

*Chief Executive,
Association of Colleges*

A strong and growing economy is in all of our interests, and further education colleges will play a central role in sustaining the recovery – they are the skills powerhouses that drive the local and national economy. They provide high-quality technical and professional education and training for young people, adults and employers. They prepare over three million students with valuable skills for the workplace, helping to develop their career opportunities and strengthen the local, regional and national economy.

Colleges across England make sure future workers have the skills employers require, and provide young people with the education and training they need to succeed. At the heart of this is building strong, effective partnerships with employers and other local partners. Colleges already appreciate how crucial this task is to sustaining economic recovery and serving their students. The current political climate, with cuts to the adult skills budget, devolution and greater employer involvement in skills, provides an imperative and an opportunity to consider new ways of working.

Outcome agreements provide the opportunity to take these existing relationships further. Colleges can use them to work with a greater number of employers and a greater range of partners, as well as collaborating with each other. This approach places them at the forefront of the dialogue in their localities, and enhances their ability to shape the agenda. It links provision with the broader economic aims and needs of their area, while at the same time developing the provision that their students demand.

This is something that can be started now. Colleges can look at further expanding their networks, increasing collaboration and consider how they might work with partners to move towards an outcome agreement model.

We cannot afford to miss the opportunity to collaborate and build on existing work, which is why the Association of Colleges is pleased to be working with the UK Commission for Employment and Skills to start the conversation about outcome agreements, and how we can learn from international exemplars in both the devolved UK nations and further afield.

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Introduction

Local outcome agreements have the ability to change how skills needs are met locally. This joint piece of work between the UK Commission for Employment and Skills and the Association of Colleges sets out the conditions required to successfully introduce outcome agreements, the potential benefits, and proposes a way forward.

Last November, UKCES published its statement 'Growth Through People'¹ which set out long-term principles that underpin its ambition for growth and identified five priorities for action:

Growth Through People: PRIORITIES FOR ACTION

- 1 Employers should lead on skills and government should enable them
- 2 Improving workplace productivity should be recognised as the key route to increasing pay and prosperity
- 3 'Earning and learning' should be the gold standard in vocational education
- 4 Education and employers should be better connected to prepare people for work
- 5 Success should be measured by a wider set of outcomes not just educational attainment

This paper focuses on the last of these, '*Success should be measured by a wider set of outcomes not just educational attainment*' and explores what this means today for the skills system at a local and national level, particularly considering the concept of local outcome agreements.

Outcome agreements would enable skills provision to better respond to local economic need, through dialogue, agreement and accountability between providers, employers and other local partners. We believe there are good reasons why England should embrace this direction of travel at this time. Importantly, the shift to increasing power and influence at a local level continues, with the recent announcement of a Cities and Local Government Devolution Bill.² Discussions have been ongoing within local areas about the impact of increasing devolution, and outcome agreements provide a potential framework to involve all the important players in a locality in decisions about skills priorities. In addition, the improvements to, and increasing availability of robust data supports a move towards greater intelligence gathering and analysis at the local level. The establishment of Local Enterprise Partnerships (LEPs) further supports this, some of which have established the governance and leadership to drive this work.

This paper draws on examples of outcomes-based approaches from different countries, and from other parts of the public sector in the UK to inform a focus on England, particularly considering implications for further education colleges. The international case studies are published alongside this paper.

What are local outcome agreements?

Understanding varies about what an outcome agreement is and what it could achieve. In the context of this work, an outcome agreement is a collectively established, written agreement identifying both the skills needs in a local area and the solutions to address them. Local partners including employers and education providers come together to agree the priorities for the area, the outcomes (and in some cases, the outputs along the way) that need to be achieved and the contribution that each partner will make to achieve those outcomes. Partners are held accountable for delivery and achievement of their agreed contribution.

Outcome agreements are sometimes confused with a payment by results system, which are a form of financing that makes payments contingent on the independent verification of results. We believe that outcome agreements are fundamentally different. They are intended to significantly change the way providers of education and training and employers think and behave, embodied in a culture of mutual agreement and collaboration. They create the opportunity for employers to take a leading role in the development and design of programmes and courses and thus ensure that provision better meets their needs and provides people with the skills that will lead to jobs.

Outcome agreements – scope and focus

For local outcome agreements to reach their full potential, all organisations with a remit for developing skills - schools, private training providers, employment providers, higher education institutions and further education colleges - need to be involved. It does not necessarily follow however that all funds have to be devolved to a local level. What is important is the ability to determine and shape provision locally and the intention is that even national programmes such as apprenticeships could be part of a local outcome agreement.

This paper is particularly focused on the role of further education colleges, recognising that relevant, high quality technical and professional education and training is central to their role. The aspiration is that over time the majority of provision at a local level will be the subject of local outcome agreements, including 16-18 study programmes that are designed to give a broader programme for young people, and post-19 training both in and out of work. This paper relates specifically to England but we hope that the content will also stimulate debate and help shape thinking in other parts of the UK.

Implementing outcome agreements

As a starting point, the expectation is that colleges, employers and local organisations would come together to work on a limited number of identified skill needs. It is anticipated that the impact achieved will prove a powerful incentive to bring about a new way of working and with it new responsibilities, accountabilities and funding arrangements. For example, because local outcome agreements would link skills provision much more closely to local economic need and the local labour market, they would provide an alternative form of accountability for the use of public funds. The role of qualifications would therefore change. Qualifications are of course important for a range of reasons, not least because they provide portable evidence of skills, but fundamentally they are outputs, and taken alone they are not a good measure of the longer term impact of learning. We believe that where funding simply rewards the achievement of qualifications rather than how learning improves job outcomes, productivity, economic growth etc., it risks incentivising providers of education and training to focus solely on the achievement of qualifications, to the exclusion of more important outcomes. Breaking the link between funding and qualifications would help to provide greater flexibility to focus on broader outcomes. Importantly, the outcomes need to reflect the skills needs of a local area, and this would move beyond a simplistic numerical definition of need (for example requiring 'x' number of engineers), to more broadly impact

on the content of curricula co-created with employers.

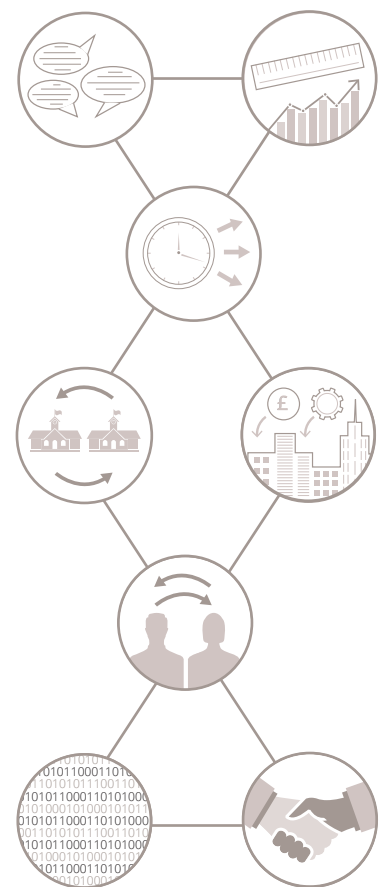
This new approach will not work if colleges operate exclusively as separate, competing institutions or if employers fail to engage. The process of developing an outcome agreement is as important as the agreement itself. Creating the right relationships, developing the agreement, identifying the outcomes, determining the way in which impact will be evaluated, and deciding what incentives are needed to drive the system, are all complex tasks. To achieve them, local players will need to work differently, requiring a maturity of approach and a commitment to a longer term goal that has not been systematically fostered to date.

England is not alone in wanting to move in the direction of local outcome agreements. It is the policy focus in a number of other countries including the five international case studies we reviewed and in Scotland an outcomes approach for post-secondary education has already been introduced. But what we have learnt is that a movement in this direction is not easy and will take time. All the case studies we reviewed were motivated by the need to achieve local employer engagement similar to the way it is envisaged in this paper, along with the direct translation of local skill needs into provision. We identified good progress - for example, all had outcomes and outcome measures in place that were changing behaviour, but there was still some way to go for the majority.

The eight propositions set out in this paper are a result of the review of international case studies; evidence of past practice; and consultation with colleges, employers, and local and regional organisations. The paper provides highlights of best practice along with some of the complex issues that need to be overcome. We hope it will inform the policy about the future direction of localism and provide useful learning to guide any local areas that can see the benefits of outcome agreements and are starting to work in this way already.

The eight propositions

- 1 The rationale and purpose behind the introduction of outcome agreements need to be communicated clearly
- 2 Outcome agreements need to measure impact not what is easy to count
- 3 Sufficient time should be taken to get the incentives right, but the direction of travel needs to be clear
- 4 The accountability arrangements need to reflect local circumstances
- 5 Outcome agreements need to identify priorities for a local area within the context of a wider industrial and economic strategy
- 6 Engaging skills and employment partners across a local area is essential
- 7 Outcome agreements need to be underpinned by robust data and intelligence
- 8 For outcome agreements to succeed, a change in culture must take place, driven by strong leadership



The benefits of outcome agreements

We believe that there are significant benefits to be gained from developing local outcome agreements. Four principal benefits are listed below:

They support better alignment between provision and local economic need. Currently colleges are incentivised to deliver qualifications, not to respond directly to the needs of the local labour market. Whilst there are many examples of colleges that are meeting local need, and recent destinations data show encouraging progress, this has very little to do with the system's current incentives. Outcome agreements would ensure provision links to the labour market and therefore ensures that individuals develop relevant skills.

There have been significant reductions in public funding for adult skills. This will inevitably continue. An increasing focus on maximising the impact of this spend is needed. Greater alignment of provision to outcomes demonstrates greater value for a decreasing pot of money. This is not about proposing a shift to funding outcomes necessarily, but about demonstrating efficacy in new ways.

Outcome agreements would help to provide a better balance of accountability for colleges. Currently colleges are accountable upwards to government and funding agencies for the money they receive. Outcome agreements offer the opportunity to shift the balance to include more 'horizontal' accountability to the local economic and social community.

Outcome agreements would bring together education providers and employers to work towards a shared aim. Outcome agreements move away from the model where colleges supply the skills that they assume employers need and employers are passive consumers of these skills. Too many previous attempts to incentivise the development of a more responsive system have focussed on only one side; either on supporting providers to become more responsive or on encouraging employers to invest in developing the skills of their people. Outcome agreements have the potential to move beyond this and incentivise employers and providers to work together on a formal agreement of what is needed, holding each other to account and creating a true partnership.

The conditions for success

A shift to this approach is a challenging and complex task but progress has already been made towards creating the conditions for outcome agreements to be successfully implemented. There is an increasing amount of data about local labour markets and the destinations of students, including the outcome based success measures currently being developed by the Department for Business Innovation and Skills.³ There are many colleges that have built strong partnerships with employers; colleges with a clear and understood purpose that convey a strong narrative about their contribution to economic growth. Success rates have increased year on year with students achieving qualifications and progressing to further learning or into the workplace. However, to build on and strengthen this, we need to reconsider the existing structures, culture and incentives in England, and apply lessons and experience from elsewhere.

However there are some significant underpinning factors that need to be in place for outcome agreements to be successfully implemented. These include:

Policy stability: A stable policy environment is essential for implementation of outcome agreements. The international examples demonstrate that introduction and implementation isn't straightforward, neither is it something that can be done in a few months. Different ways of working will take time to mature and embed and

a shifting policy environment will inhibit rather than support this.

Stable and strong relationships at a local level: In the majority of the international examples we looked at, outcome agreements were introduced within a devolved system where local areas, of whatever size and shape, already had responsibility for skills and employment. The policy direction in England is towards greater local responsibility and accountability but this is at a different stage of development. Local arrangements are varied with different structures and levels of maturity and the introduction of outcome agreements will need to be sufficiently flexible to cope with this.

Collaboration: Outcome agreements are much more than a piece of paper or simply payment for results. To have an impact partners need to commit to different, more collaborative ways of working. For colleges, an outcome agreement will certainly involve discussions about which institution is best placed to deliver which curriculum areas, and there may be the need to involve a greater degree of specialisation. Openness and willingness to genuinely explore different options are needed to facilitate a different way of working.

Incentives: Financial incentives to support colleges to do this should not be ruled out - a modest fund to provide a catalyst for change could bring about valuable results as could using other funds such as capital to support new and expanding activity.

The importance of context

A consistent theme over the last 30 years or so has been the importance of the skills system responding more effectively to the needs of employers and individuals. An analysis of the history would demonstrate that despite a huge array of different policy initiatives success has been patchy. Local outcome agreements are the opportunity to take a big step towards realising the ambition.

History and context are important when considering what can be learned from others. Canada, New Zealand, Australia and parts of the United States have all prioritised outcomes-based funding for further education and it is therefore generally accepted that this marks the way forward for skills policy in these countries. The progress to date has not however been without its challenges and there have been pockets of resistance from within the system in some countries and regions.

The striking difference in four of the cases (Tennessee, Ohio, Queensland, and Ontario) is that skills provision and funding has been devolved to 'regional' level for some considerable time. This is in contrast to the situation in England where a centralised approach has been the case since 1992 when colleges came out of Local Authority control and were managed centrally. The starting point for the introduction of local outcome agreements and local accountability in these countries is therefore different. This means that some things have been easier to introduce that may be more difficult, or take more time, to effectively embed in England.

In all the case studies, it has taken a considerable length of time to develop the outcomes and the measures and longer to demonstrate benefits. The evidence we received from Scotland reinforced the importance of time to get things right and to recognise that changes and improvements will continue to be made over time.

In addition, the challenge of a changing policy environment has made it difficult to properly evaluate the various models. Queensland for example (but not alone in this approach) experienced a succession of waves of reform over many years, albeit in the same policy direction. Similarly, skills policy in England has also undergone significant change over the years, although the focus on the importance of employers driving aspects of the skills system and colleges meeting the needs of employers has been present in some form or another for most of the time.

The current situation

There have been significant and far reaching changes made to the skills system in England over the last few years and they continue to take place. Included in the list for young people is the removal of large numbers of vocational qualifications and major reform of those that remain. In addition, from this year (2015) young people are required to stay in some form of education or training until their 18th birthday, and the way provision is funded has shifted away from qualifications to a system of funding programmes of learning. From 2016 new performance measures are being introduced which will reform accountability systems and set higher expectations for schools and colleges, aiming to make the system fairer, more ambitious, and more transparent.⁴

For adults, there are equally significant areas of national policy - some planned, some in place, and some subject to consultation. These include: the 35% cut in the adult budget between 2009 and 2015; reforms to apprenticeships currently being tested via a series of employer-based pilots known as trailblazers, and making income-contingent loans available to all courses above Level 2 taken by adults over the age of 24.

At the same time policy impacting on the demand side of the equation has included a concerted move towards giving employers a greater influence over the way in which skills are delivered. Policy initiatives include: the introduction of Employer Ownership of Skills Pilots, the decision to allocate further education capital funding via LEPs, and more recently giving LEPs a stronger role in allocating skills funding. The latter initiative is currently being tested in pilots in three parts of the country with a new skills incentive model to better match skills funding to the skill requirements of localities.

Box 2: Skills Incentive Pilots:

Skills funding incentive pilots were announced in 2013 to link funding in three local areas to local skills needs, identified by the Local Enterprise Partnership. From academic year 2014/15, the West of England LEP, Stoke and Staffordshire LEP and North East LEP are piloting the use of financial incentives to encourage skills provision which meets the needs of employers. Each LEP area was given significant autonomy to design and implement their own models locally. The pilots will be evaluated on their completion in 2015/16.

One example of the skills funding incentive pilots is West of England LEP. The LEP has produced sector statements based on local employer needs and identified specific skills challenges for each priority sector in the region, namely: Advanced Engineering, Creative and Digital, High Tech, Low Carbon and Professional Services. All colleges in the LEP area have worked together as a consortium and identified a lead institution for each sector. Each lead college has developed and been responsible for delivering an action plan to address its sector's specific skills challenges through a collaborative consortium-wide approach. Agreed actions and impacts are monitored throughout the year and evaluated at the end of the academic year. Should the LEP consider that the action plan had not been adequately fulfilled, it can recommend to BIS that a reduction of up to 5% of Adult Skills Budget⁵ allocations for the 2015/16 academic year be applied across the consortium.

The recent work by The Department for Business, Innovation and Skills (BIS) to develop outcome based success measures is also very important in the context of this paper because it introduces the concept of national outcomes and a shift away from simply measuring qualifications to a wider basket of measures - earnings, jobs, progression to further learning as well as qualifications. It also provides a rich source of data that should inform the development of local outcome agreements.

Box 3: The Department for Business, Innovation and Skills (BIS) Adult Education Outcome Measures

The Department for Business, Innovation and Skills (BIS) launched a three-month consultation in August 2014 on plans to use new outcome based success measures for post-19 learners to inform learner choice, strengthen the accountability system for providers and support provider benchmarking (alongside qualification achievement rates) from 2017-18. It is proposed that the measures should include whether learners are in employment following their course, their earnings for the year following completion of the course, and whether they progress to further learning. These measures are created from statistically robust administrative data already collected across government. The intention is to produce the measures at both qualification and provider level.

The consultation further looked at proposed definitions for the measures, what additional contextual information e.g. labour market information would be helpful to sit alongside the measures, the uses to which the data could be put and how it should be presented and published. It also proposed using the new success measures to help set minimum standards for publicly funded provision that could trigger further investigation and ultimately intervention.

The policy direction towards devolution is perhaps one of the areas of national policy that will have the greatest impact on the introduction of local outcome agreements. In the case studies, maturity and context were seen to be important in terms of how successfully outcome agreements were introduced. For example, where skills provision and funding have been devolved to a 'regional' level for a considerable time, the starting point for the introduction of local outcome agreements and local accountability was different and arguably far easier.

Currently England has one of the most centralised skills systems in the world (AoC Briefing Paper on Devolution of Skills Policy and Funding 2014)⁶ and there is widespread interest across those involved in skills policy about how to devolve power and influence from central government to local organisations. Box 4 highlights the extent of recent activity in this area. All of these policies (and others) have wide ranging implications for colleges at a time of funding restraints, and on the delivery of local outcome agreements. This is in part because the policy context provides a level of complexity and uncertainty, and because the implementation challenges of some of the policies are yet to be understood, particularly at a local level.

Box 4: Devolution Agenda

A number of measures have been taken by central government during the course of the last Parliament that are relevant to the localisation of employment and skills policy:

39 Local Enterprise Partnerships (LEPs) led by business but with local authority representation have been created following the abolition of Regional Development Agencies.

A series of City Deals were developed with many UK cities. The first wave of City Deals were concluded with the eight 'core' cities (2012), with a further 20 city regions obtaining City Deals later (2013-14). The City Deals trailed approaches to the skills and employment system, for example devolved funding models and coordinating employer led apprenticeships and training activity.

The government announced (2014) plans to invest at least £12 billion (2015/16 to 2020/21) in local economies in a series of Growth Deals with LEPs. This includes skills capital allocations worth £665m across 2015-16 and 2016-17. LEPs have also developed ESIF strategies (2014-20) to shape delivery of

European Structural Funds. The government also published information of how LEPs can increase their influence over local skills budgets.

In late 2014/early 2015 government entered into Devolution agreements with Greater Manchester, Sheffield City Region, Leeds/West Yorkshire and Greater London to re-shape and re-structure Further Education provision. The local areas will lead a re-commissioning process in consultation with government over future FE provision to ensure that a new, forward-looking FE system starting 2017. This will include an opportunity to consider the future shape and funding of FE provision. The deals retain apprenticeships and traineeships as national initiatives. As part of these agreements the government has also devolved the Apprenticeship Grant for Employers (which currently pays the employer £1,500 per qualifying apprentice) to the local areas (Greater Manchester, Sheffield City Regions and Leeds/West Yorkshire) so that they can make their own determination regarding priorities.

Community Budget Pilots have made it possible to pool public service budgets in a defined local area allowing tailored packages of services to be created. Services such as back to work support are included, but the pilots cover a broad range of service areas. An evaluation of the pilots estimates that an extension of these approaches would lead to between £1bn and £1.7bn savings per annum primarily through reductions in benefit expenditure. The Department for Communities and Local Government has established nine further pilots from the beginning of 2014/15 to build on the whole place community budget pilots.

What has been learnt from the past?

Outcome agreements are not a completely new idea. There have been a range of attempts to create incentives for the skills system to respond more effectively to the needs of employers. Those past and current policy incentives have shaped the vocational skills system as it exists today and the culture of organisations that receive public funding in England. But the system has struggled for many years to find ways of giving customers the skills they need. We need to learn from these and not repeat the same mistakes.

This is not an analysis of the policy landscape of the last 30 years but a brief look at past attempts to use the incentives in the system to put employers and individuals in the driving seat and focus college provision on local needs.

As early as the 1990s, funding was regularly used as an incentive to drive behaviour towards outputs and both the Training and Enterprise Councils (TECs) and the Further Education Funding Council (FEFC) had funding systems based on outputs. The TECs were established in 1990-91 to *'put business in the driving seat'*, and pioneered output related funding with up to 75% of money paid to training providers on programme completion where there was evidence of progression to work. The FEFC funding model was based on an annual allocation for delivering a target number of 'units' of activity based on student achievements weighted to recognise different student characteristics.

In 2000 the Learning and Skills Council (LSC) introduced a more planned approach for further education with an expectation that there would be a move towards locally relevant provision. The funding system was not changed, however, and funding continued to be paid for numbers of students enrolled and qualifications achieved, with no explicit link to responsiveness to local needs. In reality the LSC continued to pay providers for numbers of students enrolled and qualifications regardless of responsiveness to local needs.

Other examples such as Train to Gain and Individual Learning Accounts were both aimed at shifting influence and decision-making to employers and individuals by making access to learning and funding easier. Both showed results in terms of the volume of training that took place but limited success in terms of giving employers power over what was delivered. The very recent policy on Traineeships is an attempt to increase the number of 16-24 year old Traineeships by creating a separate funding system with rewards for getting young people into work and more flexibility over what can be delivered.

In addition to using funding as an incentive, there have been other initiatives deployed that have relied on encouragement and self-regulation to persuade colleges to work together for the benefit of employers and the community. As early as 1998, the FEFC published papers on how colleges should respond to employers and their local role⁷ and set out the expectations for colleges to use public funds to meet local needs. The expectation was that colleges would *'give priority to their local communities in the use of Council funds, set within the context of the key government priorities at that time of quality and standards, widening participation and the skills agenda'*.⁸

Much of the activity in the past, although often seen as positive at the time, stopped before it was able to fully demonstrate its worth. There are many reasons why this happened including: the introduction of new policies, an inability for policies to demonstrate impact, or in some cases, simply because the policy was unworkable. One of the other reasons why some of the policy interventions were less than successful may be because policies were either designed to work with employers or with colleges. There are very few examples from the past where a policy was designed in such a way to persuade colleges and employers to work together towards a shared aim. The language of supply and demand was used to describe colleges and employers respectively and they were seen as parallel organisations rather than having a co-ordinated and shared view of the solution. Colleges were defined as part of the supply chain (customer and supplier), rather than as an equal partner.

In 2013 the Commission on Adult Vocational Teaching and Learning picked up the important theme of colleges and employers working together and set out its vision of a first-class vocational education and training (VET) system, i.e. one which *'develops the ability to perform in a job, and provides a platform for occupational, personal and educational progression. ... Vocational teaching and learning must be characterised by a clear line of sight to work, and the VET system should operate as a two-way street'*.⁹

In addition, until recently the availability and the quality of data has been a major barrier to the setting and measurement of outcomes. It is only in the last couple of years that data on destinations has been available, and more recently, data on earnings and progression. Attempting to introduce policy that relied on data that took a long time to collect and was unreliable meant lengthy discussions about the credibility of the data rather than achieving the outcomes.

At the times that policy initiatives around collaboration were being introduced, many issues were raised as to why a particular approach was problematic including complex recruitment patterns, the need for financial stability, and the importance of taking advantage of historic investment in accommodation and facilities, and demands for local employment. As a result, very little happened. In addition to these barriers, (most of which would still exist today) there are now others including the potential for UK competition law to impact on further education colleges and Ofsted's role inspecting individual institutions. This is at odds with a collective response to local needs and could get in the way of an approach predicated on collaboration.

How to ensure successful implementation of outcome agreements - eight key propositions

The following eight propositions set out what we believe needs to happen to drive the implementation of local agreements. They explore the experiences of the case studies and identify important lessons for England.



Proposition 1

Rationale and purpose needs to be determined, supported and communicated clearly

Being clear from the outset about the rationale, purpose and benefits of introducing outcome agreements is integral to their success. Outcome agreements are a fundamentally different approach and clearly articulating the rationale and purpose will help secure real commitment from partners. The international examples demonstrate that where outcome agreements are gaining traction, governments - national and regional - have clearly articulated the rationale and the direction of travel, and aligned policies accordingly. Across the different case studies there were a variety of reasons given why outcome agreements had been introduced, and depending on the model adopted, different characteristics were observed. The most frequently given reason was to create a sense of shared ownership and align local and national priorities. Other drivers included supporting new accountability arrangements and increasing value for money.

Box 5: Rationale and Purpose

The evidence pointed to a range of different reasons for the introduction of outcome agreements including to:

- support the introduction of new accountability arrangements
- realise vision, create shared ownership both internally and externally
- seek innovative solutions and collaboration in times of austerity
- create a framework that could be interpreted at a local level and at the same time align with national priorities

Canada, New Zealand, Australia and parts of the United States have all prioritised outcome-based funding for further education and the reasons given for this direction of travel include the following:

- To support performance management
- To provide accountability within the system
- To attune the provision to the needs of employer/communities
- To increase value for money in public spending

In New Zealand the shift towards outcomes is driven by an explicit need for providers to align their provision with national goals and as part of the increased focus on outcomes led by the government agency responsible for funding tertiary education in New Zealand.

In Canada part of the rationale was the desire to provide reliable information to prospective students in order to support decision making, especially within a system where different types of providers (public and private) are offering sometimes the same courses delivered in different ways.

These themes are also important in Scotland, where outcome agreements were introduced to respond to a need identified by the Scottish government to link funding for colleges (and universities) to a reciprocal and transparent commitment from them to deliver national priorities for further education and skills and to demonstrate value to their local community.

Although there is nothing to stop local areas implementing outcome agreements right now, and indeed there would be much to be gained from this, evidence suggests that national policy is likely to be a catalyst that will create a significant movement towards outcome agreements. It is important that the rationale and support is strongly stated at a national level but equally important that there is a communication strategy at a local level with the benefits for local partners clearly articulated. Successful outcome agreements are dependent on the commitment of the various parties which will only happen if partners can recognise and sign up to the benefits of the approach.

In some of the models we looked at, the role of central government was more prevalent than others depending on why outcome agreements had been introduced. For example, while the vocational education and training (VET) reform process to tackle skills mismatch and meet industry needs is longstanding in Queensland (and indeed in all Australian states), it has arguably accelerated in recent years as a result of pressures on public funding and a need to ensure effectiveness. This has contributed to a more explicit focus on performance management and the setting of outcome targets, not just in the training and employment field but across public service provision in Queensland. The introduction of outcome agreements is as a result seen as more top-down than locally driven.

In order for local outcome agreements to be successful, the key customers - employers and individuals must be allowed to drive the local skills system and the approach must be received positively by colleges and other providers.

Implications

- (i) For the greatest chance of success, there should be a clearly stated national policy support for local outcome agreements and alignment of all other skills policy with this direction of travel.
- (ii) Employers and individuals must be allowed to drive the local skills system, and all partners need to understand the rationale and benefits to buy into the process - this will take time and resources.

In summary

Being clear about why local outcome agreements are being introduced and aligning the model and its characteristics to that purpose is an important process and should be agreed and communicated prior to the development of outcomes and measures.



Proposition 2

Outcome agreements need to measure impact not what is easy to count

We believe that the measures used for local outcome agreements should relate directly to the economic challenges in the local area. The gain is not simply that measures will be meaningful but that the very experience of this approach will help to change the culture and ways of working between players in a local area as they work together to identify the key priorities and translate them into outcomes that can be measured. We do not believe that it is possible or desirable to select one comprehensive set of measures that each area would use. However, in practice many local areas will want to measure the same outcomes and where this is the case it makes sense to use common nationally agreed definitions which enable similar areas and similar institutions to benchmark their performance and ensure that learners and employers can make fair comparisons. It will also be important that different areas, which will have different demands in terms of economic and social issues, can work together to identify what their priorities are and how they would measure success. Measures could possibly include wider outcomes that relate to how skills contribute to the reduction in say mental health and crime.

In some of the international case studies, where the model was locally driven, it was more likely that variations across regions were found in terms of need, and different activity established to meet need.

Overcoming some of the difficulties of local comparisons is one issue frequently raised. In the state of Tennessee, every institution has flexibility in influencing the weighting that is applied to each of the outcomes and the weighting is calculated following consultation with the funding agency. In an English context, it will be important to be clear how local differences will be taken into account. Differences will include a range of different factors - level of unemployment, travel to work patterns, number of large businesses - and will impact in a range of ways including on the progress made towards local outcomes as well as determining priorities and outcomes to be achieved. There is also a potential tension between the requirements attached to the spending of public money and a local approach to setting and monitoring measures.

Deciding which outcomes are appropriate is a complex task. In the case studies, definitions were relatively consistent across the different geographies. They typically focus on employment outcomes, progression and customer satisfaction. In some cases, these were tweaked or targeted at specific groups and where they differed, it was in terms of the complexity of the measures set ranging from a comprehensive set of measures in Ontario, Canada to a handful of measures in Ohio.

In Scotland Regional Outcome Agreements are established between colleges/universities with the Scottish Funding Council (SFC) agreeing with the college/region detailing what will be delivered in return for funding. In the case of the colleges, each region is represented by a single college or regional college board and it negotiates an Outcome Agreement directly with the SFC. The outcome agreement document is itself the funding contract - in which each college region sets out sectoral and regional skills needs assessments. These reflect employer and local community demand for a balance between different types of courses, levels and subjects and the outcomes and outputs the institution will deliver, reflecting the priorities of the SFC and the Scottish government.

Some of the international models had introduced intermediate outcomes. For example, in the US states, achievement of certain milestones by students is considered to be an important intermediate outcome towards degree completion or job placement. Intermediate milestones are important especially where the achievement of outcomes is likely to take some time or indeed is difficult to measure. In most cases, where examples were

given, intermediate outcomes were quantitative and provided confidence that the longer term objective was on track.

One of the lessons from Ohio was how to respond to the challenge in designing outcomes-based models around incentives so that more vulnerable or difficult to engage people are not forgotten by the model. The inclusion of a “risk” weighting encourages institutions to engage with underrepresented populations.

Determining what to measure and how is another of the complex problems that needs to be resolved at the outset. In the early stages, it is possible that there might be a gap between what an area might want to measure and the ability to capture data to provide sufficient evidence of achievement. We believe that it is better to measure what is right and work to improve the evidence source, than to adapt the measure to the evidence available.

Implications

- (i) Understanding what data is available locally, how to capture, analyse and fill any evidence gaps where necessary, is a key task for a local partnership.
- (ii) There needs to be the acknowledgement that in the early years of this approach, data will not be complete or available and some judgements about outcomes will not have the benefit of robust and comprehensive data.
- (iii) There are some disadvantages of having locally-determined measures that will need to be managed, e.g. difficulty in national and local comparisons; which learners may find useful and which support effective benchmarking.

In summary

It is important to introduce outcome measures that are relevant and accurately demonstrate impact rather than those most easy to count and evidence. This is challenging. Impact may not always be fully quantifiable or externally auditable - it could relate to local employers' increased sense of confidence or performance for example. This approach requires the use of a variety of measures to best demonstrate impact, even if this is sometimes less straightforward to capture and quantify. Importantly in this context, the agreed performance framework should inspire trust, and empower rather than control partners.



Proposition 3

Sufficient time should be taken to get the incentives right, but the direction of travel needs to be clear

Currently, information about financial health, success rates and inspection grades are all factors in making decisions about the performance of colleges in England and so have a significant impact on behaviour, along with how much funding can be secured.

Colleges want to respond to local need and see themselves as key players in contributing to local economic growth and social prosperity but are less likely to change provision in any significant way unless the incentives are right. Incentives could take a number of forms including: impact on inspection judgements; new business opportunities; opportunities to diversify income streams; growth in income. In addition, the development of a long-term business relationship with a local employer or employer representative that provides a commitment about future work for a college is also likely to act as a strong incentive.

Colleges need to maximise their income and the further reductions to the Adult Skills Budget will provide a strong incentive to colleges as they seek to maintain their role. With the majority of funding coming from government, colleges will make rational decisions about the pattern of provision based on what attracts public funding.

Funding as an incentive

For outcome agreements to be meaningful the incentives need to be right and there needs to be consequences for partners that don't deliver. Funding is the most obvious way to do this and certainly needs to be explored. However whilst it might be logical and attractive to want to link funding to outcomes or indeed to the plan that will deliver the outcomes, the case studies show it is wise to proceed with caution.

Across the case studies, whether or not funding was applied was often more of a question about the stage of development and the maturity of the system rather than a decision not to attach funding. Funding was clearly seen to be a key driver in terms of getting people on board but significant risks were identified in introducing it too early. Getting a number of other things right first such as agreeing the outcomes and how they will be measured allowed the outcomes approach to be embedded without the complication of how funding will be perceived and responded to.

Deciding if and when to use funding to incentivise the delivery of outcomes depends to a great extent on why an outcomes approach is being introduced. In Ontario and Queensland funding is not based directly on outcomes but is based on developing a further education market place in which funds are contestable and channelled through the purchaser (similar to England in terms of the introduction of loans in further and higher education). In these two models outcomes are used to monitor programme effectiveness and to influence programme design, rather than being part of the funding deal with any institution. In this context, where they are not a condition of funding for institutions, the outcomes can be broader in nature e.g. in Queensland this includes population-wide measures.

Once outcomes are linked to funding, there is likely to be fundamental changes to the nature of colleges' financial plans and possibly financial stability and this will certainly impact on provider attitudes and responses. Consideration needs to be given to how colleges will be supported, for example, in Ohio, funding was phased in over time and arrangements were put in place to provide some protection for institutions' financial stability. In 2013, the amount of funding that was allocated to outcomes for community colleges was increased from 5% to 10% and then recommendations were made to increase it further. This was an interim measure with the

intention that all community college funding would become outcomes-focused. At the same time a “stop loss” was put in place to guarantee a certain percentage of funding in a given year, thus enabling some stability in transition to the new funding model.

The messages communicated by government about how funding will be used, are crucial. What emerged strongly from the case studies is that, unsurprisingly, funding has played an important part in getting people to change behaviour. The shift in behaviour was particularly evident from Ohio and Tennessee where the vast majority of funding is now allocated by outcomes and there is growing evidence that providers respond to the incentives that the funding model presents to them. However, an over focus on funding, performance management and sanctions will get in the way of developing the right dialogue and the trust that are vital for success. If the longer term objective is to shift a significant proportion of funding to the delivery of outcomes, by funding the plan or by other means, there must be clarity and certainty about this direction of travel.

Using other types of funding to change behaviour

There are also examples where funding has been used to encourage providers to adapt provision without it being directly attached to outcomes. In one example a small amount of money was provided to encourage providers to adapt provision. In another example, where programmes of study were new and student numbers low, longer term funding was provided to give providers security of funding. Colleges are generally reluctant to make significant investment in terms of resources, staff time and management oversight unless they have confidence that there is a good chance of recruiting a reasonable cohort of students and a return on the investment they have made.

Consideration needs to be given to funding sources other than the Adult Skills Budget and how it could be used as an incentive to drive an outcomes model. For example LEPs could take into consideration in their capital funding decisions whether a college is signing up to and delivering against an outcome agreement.

Implications


- (i) An outcomes approach needs to be fully understood and embedded before funding is attached and this will take some time.
- (ii) Evidence suggests that it is not advisable to attach funding from day one but the direction of travel needs to be clear from the start.

In summary

Funding is a powerful incentive. An incremental approach with a clear direction of travel and identified stages of introduction is the right way forward recognising that the signals that are given about how funding will be used, are crucial. Moving gradually allows the flexibility to agree and amend the outcomes and measures, ensures cultural change and new relationships can develop, and enables a new approach to be embedded without the complication of how funding will be perceived and responded to. There are different streams of funding available and piloting different approaches may be the way forward.

Proposition 4

Accountability arrangements need to reflect local circumstances



How colleges are held accountable for their contribution to the achievement of agreed outcomes, but retain their independence and autonomy, is fundamental to the overall success of the approach in this paper. Outcome agreements would enable colleges to be primarily accountable to the needs of individuals, employers and the local economy, so their success will depend on whether these local needs are met. This would foster and facilitate a culture of dialogue, collaboration and continuous improvement between partners in a locality.

Local accountability would look different to the current arrangements where colleges are primarily accountable to government and funding agencies. It would be a model of collaborative accountability - colleges working together to ensure the right provision in the right place. This is not straightforward, in part because local areas have different infrastructures with varying maturity in their governance arrangements, and colleges are often in competition with each other and other education institutions.

It terms of creating the right culture of accountability, it will be important that the evaluation of local outcome measures is compatible with the current inspection framework for colleges. The success of local outcome agreements will depend on their ability to deliver what employers, the local community and colleges identify as needed. If as a result of introducing local outcome agreements, the centre of gravity for colleges' accountability arrangements shifts from the funding bodies to local agreements, then the way in which provision is evaluated also needs to shift to ensure that the right things are being measured by the right people, i.e. the customers - employers, individuals and the local community. Locally-agreed outcomes and measures could form a key component in a system of devolved skills decision-making and funding and there would need to be some fundamental changes to the current centralised system of monitoring the performance of colleges. However, some need for national accountability may remain, and how local and national accountability sit together will need to be carefully worked through.

Evidence from the case studies identified different approaches - each driven by different motivations. For example, The United States has opted for a model of almost complete devolution in terms of shaping the content of the performance measurement systems of its community colleges. This allows for immense flexibility but also means that performance is very differently defined in different states and is arguably far more challenging in some states than others and therefore potentially seen as unfair.

In Queensland the Department of Employment, Training and Education's (DETE) Performance Improvement and Accountability Framework makes the case that the move for increased empowerment and autonomy throughout the education and training system brings a need for a clear accountability system to ensure that investments and actions lead to positive outcomes. The Framework includes a Value Chain (a generic graphic setting out the performance improvement cycle), a 'benefits map' setting out the objectives, inputs, services, outputs and outcomes for each part of the system and key performance indicators.

In Canada under a more market-led model, the question of accountability of institutions is being dealt with in two ways: firstly by very localised structures for employers to talk to colleges which are involved in ensuring the relevance of programmes of study rather than outcomes setting and secondly the desire to provide reliable information to prospective students in order to support decision making, especially within a system where different types of providers (public and private) are offering sometimes the same courses delivered in different ways.

In Scotland, outcome agreements are about accountability, not about the allocation of funding (though the

negotiation of the agreement can involve discussion of local need and can lead to some changes in funding level). They are about influencing culture, behaviour and attitude as much as who gets funding for what. There is a lot of flexibility about how they are applied to 'serve' their area.

Box 6: Edinburgh College Outcome Agreement 2014-17

Sectoral and regional skills assessments

- Describes catchment area demographics (working age population; young population; disadvantaged groups), employment, and education and health statistics.
- Discusses the region's sectoral priorities and characteristics.

Outcomes and Outputs to deliver in return for funding

- Contains a variety of commitments distinguishing between outcomes and outputs.
- Outcomes include destination goals (97% of full time students achieving a positive destination); institutional sustainability; monetary (increasing turnover identifying new areas of business that align to future economies); and ratings. To be delivered by 2016-17.
- Outputs include increased spends on staff; increasing non SFC income; acquiring data on destinations; curriculum offer aligned to regional need.
- To increase value for money in public spending.

The document outlines how Edinburgh College plans to meet the needs of students and the region, with a discussion of the curriculum and how it will align with jobs and growth goals of the region.

Implications

- (i) Local outcome agreements and a shift to local accountability will have a major impact on the way in which colleges' performance is assessed.
- (ii) If sanctions are to be used for non-delivery, care must be taken to ensure they are appropriate and timely.

In summary

There are important lessons for England in ensuring that accountability arrangements reflect local circumstances. The expectation is that the very process of developing local outcomes and getting to an agreement about priorities will create a formal and informed dialogue between employers and colleges that would in itself demonstrate the value of the process and act as a powerful incentive.

What is clear is that how colleges will be held accountable for their contribution to the delivery of outcomes is of significant importance and there are pros and cons to different approaches. There is also a need to think through carefully how employers will respond to local outcome agreements and what incentives need to be in place to ensure their engagement.

Proposition 5

Outcome agreements need to identify the priorities for a local area within the context of a wider industrial and economic framework

There are significant local variations in economic growth, skills and employment opportunities across England. Understanding the role that strategic national and local priorities can play and how they can work together will help to maximise impact. Local outcome agreements need to be built on an understanding of what will drive the best local employment opportunities and enhance business performance. It will be important to identify how the achievement of local outcomes will contribute to national priorities without national priorities unduly influencing the determination of local outcomes.

Evidence from the case studies showed that having both local and national outcomes added complexity and there is an obvious tension between the delivery of national outcomes and the desire to enable local partners to determine what is important to their area that will need to be worked through. What is important is that local outcomes are set with an understanding of national priorities and strategies. National priorities are by their very nature, likely to be high level and generic e.g. greater provision at technician level; improvement in English and maths; increase in the number of learners studying STEM subjects. At a local level the priorities will be specifically related to the needs of the local area. A local outcome agreement may include specific sector requirements, for example, engineering because of expansion or new employers entering the area; or an overall reduction in the number of young people unemployed in a particular location; or an increase in more generic skills such as managerial competency. Being able to articulate with evidence how the achievement of local priorities contributes to national priorities will be an important part of the process. Working in a broad national framework and with the national direction of travel is important as this can provide a greater impetus for change, can help inform action at a local level and make this more effective, and can facilitate transfer of information and best practice across the country.

The strong local focus of the Canadian model has meant that it has faced some challenges introducing national priorities. For example skills and employment funding in Canada has been devolved to 'regional' (provincial/territorial) level for many years. While largely devolved, it is heavily centralised at the 'regional' level. Canada demonstrates that skills planning on a regional basis can also create challenges that any push for localism needs to be aware of. In all Canadian provinces the long tradition of provincial autonomy over skills and employment funding has made it difficult to gain a national co-ordinated view of outputs and outcomes. It has created perceptions of unfairness in FE funding because the provinces set student grants and fees at different levels and it also makes it difficult to then introduce a national programme.

In Scotland, Skills Development Scotland have published regional skills assessments that draw together the available evidence on skills demand and supply in each locality. Colleges are expected to use the data to inform their curriculum and investment decisions, with SFC also using the information as part of the process of negotiating the outcome agreements with colleges. This is a new and developing approach, with the first data published in Autumn 2014. Interpreting the data to understand what it means for economic needs in an area is also challenging as is agreeing what the resolution might be, for example, deciding which provider is best placed to fulfil this need. Conversations with colleges about 'needs based provision' have created a new dialogue based on the requirement to define 'need' especially in a local area.

There is also a tension between student demand and employer demand and the need for high-quality information, advice and guidance that is supported by national and local market information. Student mobility and the ease of travel are important issues to consider and will differ across the country providing choice of

study and jobs in some areas and a more limited opportunities in others. Some colleges will recruit a high proportion of their students from outside their local economic area - fringes of London being a prime example where students will pass some colleges to attend others further afield. This raises important questions about the geography of local outcome agreements. It is likely that some colleges will be involved in more than one local outcome agreement and the complexities of what this means in terms of accountability will need to be thought through carefully.

The focus on local priorities does not mean that national priorities are no longer important but it is important to be clear that for local outcome agreements to work, the starting point needs to be the needs of that geographical area. How the two sets of outcomes work together and what is expected of providers in terms of accountability will need to be explored. Simply adding another layer to an already complex system will not drive the behaviour that is required.

Implications

- (i) The tension between local and national priorities will always be present and needs to be worked through.
- (ii) Similarly there is a tension between student demand and employer demand. The more information, advice and guidance about appropriate programmes of study is based on robust evidence of the outcomes from different destinations, the more aligned the two demands will become.

In summary

What is clear is that local agreements need to be built on an understanding of what investment in what skills will drive the best local employment opportunities and best enhance business performance. However, there is a need to sit them within a broad national framework whilst recognising that the starting point is local need.



Proposition 6

Engaging skills and employment partners across a local area is essential

A range of local partners must be involved in the development of an outcome agreement in a locality. These should include: employers; colleges and other education providers; employment providers; employer organisations such as Local Enterprise Partnerships; and local and combined authorities. Local outcome agreements would put responsibilities on all partners including requiring employers to articulate their future skills needs in a coherent and meaningful way and to come to the table willing to share information and intelligence about the future of their businesses. This is not to say that all parties need to be engaged from the outset. There is a strong case for starting small and expanding once new ways of working are understood and embedded rather than trying to take a 'whole of locality' approach right from the start.

An important lesson from the case studies is that the more control and influence partners have over the design and implementation of a local outcome agreement, the more committed they will be to its success.

Engagement with employers

The international examples show that engaging employers and demonstrating the impact of engagement can be challenging but for outcome agreements to be successful, it is essential that employers are fully involved, see the benefits and real buy-in is secured. It is particularly important to explore how this can work with smaller employers that have fewer resources. Bringing employers to the table was a strong desire of all the case studies but all reported on the difficulties of this and as a result, the reality is that employer engagement is still a weak part of all the systems we reviewed. Lessons from the Scottish experience to date suggest that employers will engage where they see a need and over specific issues (the burning platform or the big win).

A co-ordinated local approach for employers to influence skills provision at regional level is arguably more manageable and more coherent than a national approach, especially where the local skills infrastructure has the levers to respond. Queensland is a good example of this but has not found it an easy process. In the US states and Canada the main engagement with employers is heavily localised (at institutional level) and is therefore somewhat de-coupled from an overall local outcomes design although consultations take place. There are questions as to whether some of this engagement is too local to provide a strategic input. In Tennessee and Ohio they have taken a two stage approach, i.e. set up the outcomes model first and then plan to introduce employer inputs later.

Knowing whether engagement with employers is working is also challenging, particularly in moving beyond counting numbers of engagements, to a measurement of the impact of the engagement. The consensus across the case studies is that it is difficult to measure it in a meaningful way and as a result this element of the model has been slower to develop. What evidence does exist, is largely collected through qualitative data.

Engagement with colleges

Alongside engagement with employers is the need for consultation and engagement with education and employment providers if buy-in to the new approach is to be achieved. Securing commitment will not happen through imposing a national framework. This is especially the case if the reform to the system is quite a radical departure from the previous model. In the Scottish system although the process of reform is driven from the centre, it is well understood that securing and reflecting the input from providers is also important to ensure that any new system has legitimacy in the eyes of stakeholders.

For community colleges in the United States, the outcomes identified were supported by most institutions. Reports suggest that they welcomed the opportunity to be measured on their performance in areas where they had comparative strength in relation to the universities, including the number of work placement hours and job placement rates.

One of the hallmarks of the process of implementation in Tennessee and Ohio was the consultation that took place between the regional body and the postsecondary institutions. From the announcement of the reforms, there was a focus on securing buy-in from institutions into the new model of funding. Consultation processes were important in identifying the outcomes that institutions would use as well as allowing them to influence the weighting of each outcome. In addition, the different missions of each type of institution were taken into account in the funding model. This has played an important role in enabling buy-in to the process.

Allowing providers to influence the weighting of various outcomes depending on local circumstances is considered important in ensuring that local autonomy is kept at the core of the outcomes-based approach. This was a clear signal from the Tennessee Higher Education Commission consultation committee that there was a determination that institute mission should be reflected in the outcomes based formula and institutions should be given some flexibility to weight the outcomes.

In Scotland, Northern Ireland and Wales the college sectors have undergone a process of rationalisation giving individual institutions responsibility for larger catchment areas. Having a smaller number of institutions has made it easier for local dialogue, negotiation and potentially for planning. This highlights the importance for English colleges to work together and to create a collective response to employers where appropriate.

It is also interesting to note that in New Zealand and Scotland for example where there are a small number of institutions, the dialogue between the central or regional body is richer and more meaningful than it might have been with a larger number of institutions. This is partly because the institutions are covering a larger area but also because senior staff in the funding body operate as 'Account Managers' and have a relationship with a small number of institutions that is based on a deep understanding of the institution and its context.

Implications

- (i) There are implications for all local players, not just colleges. If this approach is to be successful it will include time, resources and commitment over the long term.
- (ii) For colleges in particular, there is a need to work together to consider the best location for specialist provision locally in order that value for money as well as high quality and relevance is guaranteed.

In summary

Early consultation with all partners is crucial as is giving them control and influence over the design and implementation of the outcome agreements. There are also important lessons from the international case studies not just about early consultation but also about catering for the different missions and contexts which the colleges operate within. Securing buy-in from employers and gaining their commitment to articulate and share important information about their business is key to success.



Proposition 7

Outcome agreements need to be underpinned by robust data and Intelligence

Knowing what data is available - nationally and locally and using it effectively to inform decision-making is a key requirement of this new approach. Data will be used to identify priorities, understand the challenges in the labour market or with the provider side, help learners identify potential career paths, and measure performance within an area. These are all vital to the success of outcome agreements. There is a growing and wide range of data and intelligence available at a local and national level to inform the development of local outcome agreements. For example learner destination data is published for schools, colleges and higher education; job outcome payments are built into some elements of college funding; first time information on destinations including earnings, jobs and progression is available. Many colleges are introducing Alumni programmes to keep track on leavers.

The BIS national data on adult outcome measures will be a welcome addition to the data available along with the labour market information and intelligence produced by UKCES and the data provided by the Office for National Statistics. All of this information can also be used along with more local information to help decide, for example, where provision should be best located.

Box 7: Local data, information and intelligence to inform local outcome agreements

Having robust measures of labour market outcomes and their wider context is a critical part of forming a successful outcome agreement. There is a wide variety of labour market intelligence available at local and regional level which could be used for this purpose. The Office for National Statistics produce the Labour Force Survey and Annual Population Survey, which offer a raft of indicators on the level and composition of local employment, including training participation and education levels, all broken down by age and gender (all of this data is accessible through Nomis). The UK Commission for Employment and Skills produces the biennial Employer Skills Survey, which talks to employers about their recruitment, skills and training experiences - with sample sizes sufficient to allow for robust local level analysis.

There is an expectation across the international case studies, that providers will take account of local information in the development of their curriculum. In some of the international case studies there was an easy to follow logic chain where the link between data and national and local priorities could be easily identified in local outcome agreements which led to identified action and to measurable impact. In New Zealand, the government has encouraged Tertiary Education Organisations to use information and data from national and regional employment market demand and from other sources (e.g. workshops with employers) to plan their provision.

In Scotland, Skills Development Scotland (SDS) published the regional skills assessments (RSAs), which provide a single, agreed evidence base upon which to base future investment in skills. The development of the RSAs involved a review of existing data but also aimed to highlight any gaps in this existing evidence base – gaps which may need to be filled in order to deepen understanding of regional labour markets. The RSAs focus not only on supply data such as learner numbers from the Scottish Funding Council and the Higher Education Statistics Authority for example, but also contain data which is reflective of the wider economic landscape across

the Scottish regions. This includes data relating to demographics, economic performance and skills demand, all of which are important components in determining the demand for skills as well as identifying any challenges in delivering against this demand. Partnership working was a key element in the production of the RSAs – SDS worked with the Scottish Funding Council, Scottish Enterprise and the Scottish Local Authorities Economic Development Group to secure agreement on these documents.

There is a risk of focusing entirely on capturing evidence on technical skills and losing sight of the more generic employability skills that all employers identify as key to success at work. Experience has shown that those most likely to secure and sustain good jobs, have skills that include: using their own initiative, ability to solve problems, and excellent communication skills. In delivering technical and professional programmes, colleges provide students with this wider range of skills and experiences along with ensuring that they have achieved English and maths at an appropriate level. Aligning college strategies to local outcome agreements is not in contradiction to this wider role for colleges and indeed, will provide a clear and supported direction of travel.

Implications

- (i) The analysis and interpretation of available datasets is a key skill that will be needed at a local level to inform decision-making.
- (ii) Information on the progress and achievement of outcomes needs to be used alongside information about local employer needs and intelligence about what plans businesses have for growth and expansion.

In summary

Research has shown that using existing data sources can reduce cost and development time but can be of limited value if the data and any associated indicators do not align well with the desired outcomes. Similarly identifying and developing indicators which genuinely align with the outcomes identified has been a significant challenge, along with the ability to capture the quality evidence that demonstrates achievement. This is a complex issue and the inherent difficulties are readily acknowledged.

Proposition 8

A change in culture must take place, driven by strong leadership

The introduction of local outcome agreements is as much about creating a culture shift as it is about systems. The case studies demonstrate the value of building and using relationships in the development of outcome agreements. Outcome agreements will be more effective (and indeed only possible) if built on strong relationships.

The process by which outcome agreements are developed is as important as the agreement itself and it will require all players to change. This approach requires taking risks and taking a view about what is best for the local economy rather than the self-interest of each partner. For education and potentially employment providers it will involve working collaboratively and being prepared to reposition or change provision. For employers this approach requires a commitment to work with colleges and to get to know their business, to share information and plans and to give time and energy to the process. For LEPs, other employer bodies and bodies such as Local Authorities and Combined Authorities, it requires a view of colleges as equal partners and not as part of the supply chain; as businesses in their own rights and an acknowledgement and appreciation of their strengths. It will not do for employers and employer bodies to come together, decide what is needed, and then inform colleges. Colleges are engaging with the future workforce on a daily basis and have much to bring to the table about what is needed as well as delivering skills.

The shift in approach in Scotland was very much about culture as well as performance and it was the process of negotiation between the institutions and the Scottish Funding Council that takes it beyond a transactional arrangement. In New Zealand the ability to have informed, high level and quality discussions with individual institutions based on a shared view of the context and the needs of the local population has created a culture shift away from tick boxing to judgement.

There is a need for local leadership that brings together the right players to govern and drive the approach. Some LEPs, particularly those that have developed out of existing infrastructures and long term partnerships are in a strong position to provide leadership and they have already established themselves as the convenor of the employer voice. They could form the secretariat for the way forward, but other LEPs are at a different stage of development or cover too wide an area to make sense for a local agreement. In some areas there could be other arrangements that would work better. These could include the local or combined authority leading through its economic development role, and in some areas, possibly a grouping of employers or colleges. There is no assumption about who would provide the right leadership, only that whoever 'holds the ring' needs to be neutral and have the resources at their disposal to make the approach work. What is absolutely clear however is that strong and committed local leadership is vital for success.

Implications

- (i) Strong local leadership is a must at a local level to drive the process and keep it on track.
- (ii) National leadership is required to provide direction and a stable policy environment.
- (iii) Sufficient resources and infrastructure are needed at a local level to embed local outcome agreements.

In summary

Local and national leadership is an integral part of this new approach. The expectation is that this will not necessarily be the same in each locality and the developments we have seen in some of the cities cannot be replicated in the same way in rural areas. It is up to each local area to determine what is important and how it wants to establish an outcome agreement. This new approach requires all parties to be committed to the outcomes agreed and to stay with it for the long term.

And in conclusion...

We believe the direction of travel towards the implementation of outcome agreements is the right one and that now is the right time to start the journey in earnest. This paper brings together experiences from and commentary on international and historical developments to provide useful evidence and learning. This informs a consideration of the complex issues involved, particularly the implications for further education colleges and their important role as trusted providers of technical and professional education in local areas.

We propose that there are significant benefits to moving in this direction. Outcome agreements have the potential to bring employers and education providers together with a shared aim - to more closely align education provision and local economic need, to work together to agree what is needed, holding each other to account and creating a true partnership. Ultimately, outcome agreements can clearly demonstrate the wider impact of public funding for skills.

A shift to this approach is a challenging and complex task. It represents a fundamental change in culture and a long-term commitment. But progress has already been made in England, and some of the conditions are in place for outcome agreements to be successfully implemented. We have increasingly robust and available data, and there is movement towards more relationships and strategic dialogue between education providers and employers.

We suggest therefore that the policy context is right for the introduction of outcome agreements, notably with the increasing shift towards devolution of influence and funding to local areas. But policy stability, with mature and strong relationships at the local level, and a culture of collaboration and flexibility must be in place to drive this forward.

Clearly engagement at both national as well as local level by those with influence and authority is important. However, we believe that strong and committed local leadership doesn't have to wait for a mandate and could start to work towards an outcome based approach right now. We hope that the propositions we have identified in this report will provide a starting point to help local areas to do this.



Endnotes

1. UKCES (2014) [*Growth Through People*](#)
2. Cities and Local Government Devolution Bill [HL] 2015-16
3. Department for Business, Innovation & Skills, [*Government Response: Outcome based success measures*](#), December 2014.
4. Announced in speech by The Rt Hon David Laws '[*Primary and 16 to 19 assessment and accountability*](#)' on 27 March 2014.
5. Skills Funding Agency (2015), [*Funding rules 2015 to 2016: the adult skills budget including apprenticeships*](#)
6. Association of Colleges (2014) '[*Devolution of skills policy and budgets – some practical issues*](#)'
7. Further Education Funding Council (1996) '[*College Responsiveness*](#)'; Further Education Funding Council (1999) 'Circular: [*Local Priorities*](#)'
8. Further Education Funding Council (1999) 'Circular: [*Local Priorities*](#)' para [3].
9. Commission on Adult Vocational Teaching and Learning (2013) '[*It's about work: Excellent adult vocational teaching and learning*](#)', p.7.

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