

Introduction

1. This paper provides a panoramic view of the financial crisis including the effect on public finances and unemployment and draws together the measures and actions being taken by government that are particularly relevant to the FE and skills sector. It looks at the implications of the crisis for the FE and skills sector (see paragraphs 94-105), identifies concrete examples of ways the sector is supporting economic recovery, and reviews strategies being taken in other countries to address skills and employment capacity.
2. The aim is to support the sector to share experience and practice and to develop a strategic perspective on the sector's contribution to economic recovery.

Background

3. Very briefly, the financial crisis has its roots in what are known as *subprime mortgages* – the issuing of mortgages to persons deemed at higher-than-average risk of defaulting. The sale of these mortgages was quite common in the United States. The risk from these mortgages was bundled into securities (bonds, etc.), that large numbers of banks purchased, so that when the housing market in America began to decline in 2007, the effects caused losses to banks across the world.
4. Banks thus became reluctant to lend to one another, a phenomenon known as the 'credit crunch'. As a result, banks began to run short of ready cash to continue their day-to-day operations, leading several to collapse. In September 2008, this 'credit crunch' accelerated, taking down banks in the United States, Britain and Europe, starting with the collapse of Lehman Brothers, an American investment bank, on September 15th. The spiralling problems in the banking sector generated the current climate of financial crisis, with its attendant job losses, high levels of Government intervention to combat unemployment and increased demand for training.
5. One aspect of the financial crisis that has had a specific effect in the UK is the total collapse of the Icelandic commercial banking sector (which comprised three drastically overextended banks). This caused serious financial losses for British local authorities and universities, among others.

Effects on public finances

6. The financial crisis has had a pronounced effect on public spending, which first became apparent in the 2008 Pre-Budget Report (PBR), published on November 24th, 2008.
7. The Pre-Budget Report announced that it would slow growth in spending after the 2010-11 fiscal year. Previously, the Government had planned to increase spending by an average of 2 percent each year (in real terms – that is, accounting for inflation). The PBR announced that this rate of growth would be reduced to 1.2 percent real growth. Put another way, Government departments could expect to get £5 billion less in public money than previously projected.

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8. To pay for this, the Government is requiring £5 billion in 'efficiency savings'. This could include the privatisation of some Government agencies – the *Financial Times* suggested these could include the Met Office, the Royal Mint, the Oil and Pipelines Agency and the Queen Elizabeth II Conference Centre. The Treasury had already committed to £26.5 billion in efficiency savings after the 2004 Gershon Review into the subject. Local governments will be required to make £4.9 billion in efficiency savings, though their funding will increase still grow at a fairly healthy rate (by 4.2 percent in 2009-10, and 4.4 percent in 2010-11).
9. Capital spending will be frozen '*in cash terms*' after 2011. As a result, '*£3 billion of public investment will be brought forward from 2010-11 to 2008-09 and 2009-10, the years when the impact of the shocks is likely to be greatest*'. This includes £800 million for improving school facilities and £442 million for upgrading college and university campuses.
10. However, the House of Commons Select Committee on Children, Schools and Families stated in a January 2009 report that it feared the Government would have to curtail its major capital programme for schools, the Building Schools for the Future programme. This programme aims to renovate or rebuild every secondary school in England, and intends to have projects underway in every local authority by 2016. As this programme extends beyond 2010, and involves sums much greater than the £800 million mentioned before, it might eventually be subject to cuts.
11. Of course, one caveat attaches to these budget forecasts: Labour must win the next general election, to be held this year or the next, to enact them. The Conservatives plan still more stringent spending cuts. According to a December 2008 statement by Conservative leader David Cameron, the Conservatives would limit most Government departments to a real-term expenditure increase of 1 percent in the 2009-10 fiscal year. Only defence, health, schools (presumably meaning DCSF) and international development would be exempt from this ceiling.

Creation of new economic councils

12. During his October 2008 Cabinet reshuffle¹, Gordon Brown also created new government bodies to help combat the crisis. Chief among these is the National Economic Council (NEC), a committee of the Cabinet which examines:
 - *the implications of the ongoing challenges in the financial markets for the wider economy globally and nationally;*
 - *the latest developments in global commodity markets and their impact on the UK economy;*
 - *our objective to promote sustainable and secure energy supplies;*
 - *the impact of global economic developments on the skills and employment that the UK needs;*

¹ See the LSIS Brief Guide to the reshuffle at:

<http://www.centreforexcellence.org.uk/UsersDoc/Brief%20Guide%20to%20the%20Government%20reshuffle%20-%20final.pdf>

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- *the remaining barriers to entrepreneurship, innovation, and the opportunities for small business growth;*
 - *our housing and planning needs; and*
 - *the impact across every part of the UK.*
13. The NEC is chaired by the Prime Minister, with Alistair Darling, Chancellor of the Exchequer as deputy chair. Other members include:
- The Secretary of State for Foreign and Commonwealth Affairs (David Miliband);
 - The Secretary of State for Business, Enterprise and Regulatory Reform (Lord Mandelson);
 - The Secretary of State for Innovation, Universities and Skills (John Denham);
 - The Secretary of State for Children, Schools and Families (Ed Balls);
 - The Secretary of State of Energy and Climate Change (Ed Miliband);
 - The Secretary of State for Environment, Food and Rural Affairs (Hilary Benn);
 - The Secretary of State for Work and Pensions (James Purnell);
 - The Secretary of State for Communities and Local Government (Hazel Blears);
 - The Secretaries of State for Scotland, Wales and Northern Ireland (Jim Murphy, Paul Murphy and Shaun Woodward, respectively);
 - The Chief Secretary to the Treasury (Yvette Cooper);
 - The Minister for Housing (Margaret Beckett);
 - The Minister for Science (Lord Drayson);
 - The Financial Services Secretary to the Treasury²; (Lord Myners)
 - The Minister for Economic Competitiveness and Small Business (Lady Vadera), and;
 - The Minister for Communications, Technology and Broadcasting (Lord Carter).
14. The Cabinet Secretary, the head of the domestic Civil Service, and the Permanent Secretary to the Treasury are the secretaries to the NEC.

² This post was originally titled Minister for the City.

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15. The reshuffle also created a Regional Economic Council, co-chaired by the Chancellor of the Exchequer and the Secretary of State for Business, Enterprise and Regulatory Reform. The council includes ministers from several Government departments, representatives of the Regional Development Agencies (RDAs), the Government ministers for each English region³, and representatives from business and the trade unions. As of January 2009, it had met twice.

Specific measures to combat the crisis

16. Since October 2008, when the full scale of the financial crisis first became apparent, the Government has opened new funding streams and support programmes to help workers and businesses cope with the downturn. This section will be regularly updated as new measures are introduced and as more details become available about how they will be implemented.
17. In chronological order, these are:

October 15th

18. DIUS and the Department for Work and Pensions **announced** that they would divert £100 million of European Social Fund (ESF) money to support the unemployed. This will fund retraining and skills courses for workers who are made redundant. The money will be carefully targeted, for example on people from sectors experiencing significant job losses and on people who need support to move back into work. The £100 million will be disbursed over three years.

October 21st

19. The Department of Business, Enterprise and Regulatory Reform (BERR) **unveiled** a package of measures designed to support small and medium enterprises (SMEs). These included a commitment that the Government would pay all contractors within 10 days, and offers of health checks and information on credit and financial management.

October 22nd

20. DIUS **announced** a £350 million package for SMEs, to *'help small businesses get through the tougher economic climate by building the skills and expertise of their workers'*. This money is derived from the Train to Gain budget. The definition of SME includes all private businesses with 250 employees or fewer, and excludes the public sector. A key element is that DIUS will allow funding to be used for *'bite-sized chunks - small units or modules of qualifications in subjects known to be important to SMEs, such as business improvement, team-working, customer service, and risk management'*. Unaccredited training, however, will remain ineligible. Other measures in the package include:
 - increased Level 3 funding;

³ These are Tony McNulty (London), Ben Bradshaw (South West England), Jonathan Shaw (South East England), Rosie Winterton (Yorkshire and the Humber), Beverley Hughes (North West England), Barbara Follett (East of England), Ian Austin (West Midlands) and Phil Hope (East Midlands).

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- giving SMEs access to DIUS' management and leadership programmes;
 - offering skills diagnostics and audits to companies, conducted by skills brokers; and,
 - a new communications campaign on the benefits of training;
21. A major feature of this programme is that it allows funding for courses that do not lead to a full qualification, a major departure from previous Government policy. The Leitch Review placed a heavy emphasis on increasing the proportion of the working-age population with full Level 2 qualifications, and Government policy had tended to focus on that goal and restrict funding to courses that did not lead to a full qualification.
22. The DIUS scheme also includes more funding for Level 3 qualifications, and gives managers at SMEs access to DIUS management and leadership programmes. It also funds skills diagnostics and audits for companies, conducted by skills brokers.

October 24th

23. In a speech to the Confederation of British Industry (CBI), John Denham, the DIUS secretary, **announced** £98 million for training in key sectors. These include the chemicals industry, pharmaceuticals, nuclear power, petroleum, engineering construction, and the broadcast media. The funds will be used to deliver bespoke training for (a) the chemical, pharmaceutical, nuclear, petroleum, (b) engineering construction, and (c) broadcast media industries. The money will be drawn from the existing Train to Gain budget and builds on seven existing compacts in important sectors including engineering, technology, hospitality, process and manufacturing. This money is also drawn from the Train to Gain budget.

November 12th

24. DWP **announced** a doubling of the budget for Jobcentre Plus's Rapid Response Service, to £6 million. The Rapid Response Service provides services including *'skills matching, help with job search skills and access to training and reskilling opportunities'* to employees who are made redundant in large-scale layoffs (involving 20 or more employees). The announcement was released jointly with the latest unemployment statistics, which show a 0.1 percent increase in unemployment in the third quarter of the year, with 99,000 new unemployed (though unemployment remains at a lower level than it was at this time last year). Tony McNulty, the employment minister, said, *'Every time a worker loses their job it is a personal tragedy and the Government is doing everything it can to get those people who have become unemployed back to work as quickly as possible'*.

November 24th

25. Alongside the PBR, the Chancellor of the Exchequer, Alistair Darling, **announced** that the Government would be allocating £1.3 billion to Jobcentre Plus *'to continue delivering effective support for the unemployed to find a new job'*. The chancellor also said the Government would be establishing a National Employer Partnership with major employers to combat joblessness. Twenty-five Jobcentres destined for closure were reprieved, and plans were made to retrain 2,000 Jobcentre Plus staff as employment counsellors.

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December 1st

26. On December 1st, DIUS **stated** it would be funding a £10 million Apprenticeships Extension Programme, to support private employers who offer high-quality apprenticeships. The funding will allow them to take on more apprentices, who can be placed with other firms in the business's sector of the economy or its supply chain. The funding *'will cover the additional costs associated with the trials such as the wage, training and management costs of learners'*.
27. In a related story, DIUS announced on December 8th that private employers had agreed to create 10,000 new apprenticeship places, despite poor economic conditions. These include 7,000 that will be created in the construction industry as a consequence of Government procurement requirements. Superdrug and Phones4U will each be creating 1,000 apprenticeship places, while Tesco is slated to provide 800 places and Sainsbury's 465. The Government may also extend an apprenticeships requirement to procurement contracts with IT sector businesses.

December 8th

28. The Welsh Assembly Government **follows** London's lead with a stimulus package, including a £45 million Business Growth programme to *'provide a high level of one-to-one support through a specialised relationship management service for SMEs including social enterprises'*. The Welsh government also announced new support for training for those facing redundancy or joblessness, and brought forward £23 million in capital spending, some of which is for schools and colleges.

December 17th

29. Another £158 million **is allocated** to the unemployed, also from the European Social Fund (it is not clear if this includes the £100 million announced two months earlier). The money will fund 40,000 places in short-term pre-employment training, provide extra financial support to employers to take on new workers, and fund improved careers and training advice, delivered through Jobcentre Plus and Learndirect. The money will fund 40,000 places in short-term pre-employment training, provide extra financial support to employers to take on new workers, and fund improved careers and training advice, delivered through Jobcentre Plus and Learndirect. The money will also help fund better regional co-ordination on reacting *'to ensure that local bodies and colleges react much quicker to redundancies so that people losing jobs can be quickly notified of relevant opportunities and suitable training organised'*. Half the £158 million will come from DWP's budget, the other half from DIUS's.

January 5th

30. The Government **announced** it is considering raising the participation age to 18 immediately, rather than in 2013 as planned. The proposal is designed to combat youth unemployment – of the 137,000 people made jobless in the last quarter of 2008, 40 percent were aged between 18 and 24. The unemployment rate in this age group is 14 percent, while 26 percent of 16- and 17-year-olds are currently unemployed

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January 7th

31. DIUS **budgeted** another £140 million to fund 35,000 apprenticeships places in the private and public sectors. This is in addition to £1 billion to be spent in the coming year on apprenticeships. The Government expects more than 250,000 apprentices to begin courses during the 2009-10 financial year. The programme was announced by Gordon Brown in Derby, where he was visiting the local Rolls Royce¹ plant. Rolls Royce will take on an extra 50 apprentices under the plan.
32. The announcement comes as McDonald's said it would offer Level 2 apprenticeships to all its employees. It expects to be funding 10,000 apprenticeships a year by 2010.

January 9th

33. The Scottish Government **announces** it will bring forward £230 million in capital spending into the next fiscal year, including £90 million for housing and schools. Scottish Labour, the main opposition party, charges not enough money is being spent on skills and training. The money was originally budgeted for 2010-11. The move is part of a UK-wide effort to push forward capital spending to stimulate the economy – Westminster announced a similar plan in late November's Pre-Budget Report, and the Welsh Assembly Government also pushed up capital spending in December. The funding includes £90 million in spending by local councils on schools and housing.

January 12th

34. DWP **announced** the largest intervention yet, with £500 million to support those who have been unemployed for more than six months. This money includes £83 million to fund 75,000 new training places. Employers who hire new workers may be given £2,500 'golden hellos'. The programme also provides extra funding for training places to help unemployed people get new skills to maximise their chances of getting jobs from the 500,000 vacancies in the economy; opportunities to volunteer to help people back into work habits, and; help to set up a business – advice on creating a business plan, plus funding for the first months of trading

January 13th

35. The Cabinet Office paper *New opportunities* was published, detailing the Government's plans to increase social mobility. Economic and educational measures under this plan include:
 - the **expansion** of the career development loans scheme, with the number of loans available tripling from 15,000 to 45,000 within two years. The maximum size of the loan available for training will be increased from £8,000 to £10,000, and interest rates will be lowered;
 - the establishment of 10 apprenticeship training associations, to provide as many as 10,000 apprenticeships by 2014/15;
 - a review of how financial support for students aged 16 to 19 is delivered;
 - new £500 allowances for training for long-term carers and for low-income families;

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- more access to training for agency workers, and more support for workers with learning or mental health disabilities;
- a [commission](#) under former health secretary Alan Milburn to examine ways to make the professions more accessible to people from low-income backgrounds, (list of members [here](#)) and;
- a commitment *‘to work with colleges and other training providers on how they can use their existing budgets more flexibly to support learners into sustainable employment and to progress in employment’*

January 21st

36. The Higher Education Funding Council for England (Hefce) [announced](#) a £50 million package of support to providing training or retraining to businesses and the unemployed. Half the monies will be directly from Hefce, and half in matching funds from the universities delivering the programme. The scheme will support employment-focused projects, including retraining graduates for new careers. The programme’s rules will require universities to propose ways of working with employers and the jobless to meet job market needs – for example, unemployed business people with science degrees might be retrained to work in the sciences. Each programme will get up to £500,000 from Hefce.

January 28th

37. The Government [announced](#) £35 million in new Train to Gain money for the automotive industry, as part of a £2.5 billion package of support for that sector. UK-based automakers with a turnover of at least £25 million will be eligible for the Train to Gain money. The Government is also announcing £2.3 billion in loans for investment in low-carbon technologies. The automotive industry employs about 1 million British workers. UK-based automakers with a turnover of at least £25 million will be eligible for the Train to Gain money. Mandelson said, *‘The car industry can and should be a vibrant part of that future. The steps we are taking today will help companies speed their way to becoming greener, more innovative and more productive. This is the route to securing jobs for the long term as we build a more balanced economy for Britain’s future’*. About a million Britons work in the automotive industry.
38. Also on January 28th, London Councils, the umbrella organisation for London local authorities, [announced](#) that its member councils had agreed to provide 2,000 new apprenticeship places over the next three years. The apprentices will combine college studies with work for the sponsoring council, either in town halls or in delivering services out in the community. The apprenticeships will run for one to three years, and will be available to youths and adults.

February 4th

39. The Scottish budget for 2009 [included](#) funding for 7,800 apprenticeship places, totalling £16 million. The funding is part of a £2.8 billion education budget, and will continue even if employers themselves can no longer afford to employ the apprentices. The Scottish Government will also convene a summit on lifelong learning, to be chaired by the education secretary.

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February 9th

40. *The Guardian* **announced** that the Government will provide a £40 million bailout fund for the third sector. This is less than a tenth of the £500 million that charities first requested in November 2008. The package includes a £15.5 million ‘*community resilience fund*’ for small and medium-sized charities ‘*offering debt advice and supporting families and young people in deprived areas*’, and a £16.5 million pot for larger organisations, which will be helped to merge or partner with one another. The money comes from DWP (£9 million), the Treasury and the Department of Health. Liam Byrne, the Cabinet Office minister, said ‘*We’ve doubled government help to charities, voluntary group and social enterprises from £5.5 billion to over £11 billion. That means these vital groups face the downturn with unprecedented strength. ... We’ve been monitoring daily what’s happening to donations and demands for new services, and ... we’re launching a laser-targeted package of help with tens of millions extra for charities providing employment advice, mental health and family support services in the most deprived areas of England and Wales*’.

February 13th

41. The European Commission **approved** regulations that will allow British public-sector bodies to give up to €500,000 (about £450,000) to businesses affected by the credit crunch. The commission’s ‘*measure enables limited amounts of aid to be granted in 2009 and 2010 to businesses in difficulty as a consequence of the crisis or facing funding problems because of the credit crunch*’.

February 19th

42. The Department of Health and DWP **announced** a \$13 million programme to fund pilots to encourage workers on sick leave to return to employment. The pilots will ‘*test out how sickness absentees can be helped to recover and supported to get back to work more quickly than would otherwise be the case*’. Phil Hope, the minister for care services, said, ‘*Good health for the workforce is good for business - every employer knows that. In the current economic climate it’s even more important that we cut the £100 billion cost of worklessness caused by ill health*’.

February 23rd

43. DIUS **announced** that the Government would be providing 21,000 apprenticeships in the public sector. Among the programmes and organisations participating are the Building Schools for the Future (BSF) programme, which will provide 1,000 places, the National Health Service (5,000), further education colleges and universities (2,500), local government (7,500), schools and children’s services (4,500), the Ministry of Defence (1,000) and central government departments (more than 600). The Government is requiring local authorities and construction firms in the BSF programme to take on extra apprentices.

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March 8th

44. The Department for Work and Pensions (DWP) and the Department of Health **announced** they would be attaching employment support workers to an expanded network of therapy services for unemployed workers suffering from depression or other problems. The support workers will be attached to a network of 'talking therapy services', which provide counselling (specifically, cognitive-behavioural therapy) to workers with depression or on long-term sick leave. The Government plans to have such therapy services available nationwide by 2010. The Government will be providing £13 million towards the programme, and plans to train 3,600 new therapists over the next three years.

March 9th

45. DIUS **published** a strategy to update the Skills for Life programme, which provides literacy and numeracy education for adults. DIUS said the new strategy would help *'improve the numeracy and literacy skills of one million adults to help them to get and keep jobs'*, specifically improving the literacy skills of 597,000 adults, and the numeracy skills of 390,000 adults, over the next three years. Key features include work to *'increase the opportunities for people to do Skills for Life learning embedded in wider vocational training programmes so that, for example, people learning carpentry learn numeracy at the same time'* and *'support for colleges and providers to make Skills for Life learning more flexible so it meets the needs of individual learners and fits in with their busy lives'*.

March 17th

46. The Department for Work and Pensions (DWP) **announced** £8 million for the Access to Work programme, which helps people with disabilities remain in employment. The Government plans to double funding for this programme to £138 million by 2013-14. Jonathan Shaw, the minister for disabled people at DWP, said, *'This extra funding will help disabled people stay in work or take up a firm job offer. This forms part of the £2 billion package we are investing to give people real help in these tough times'*.

March 20th

47. The Scottish education secretary, Fiona Hyslop, **announced** that her government would be providing £5.6 million for skills and employment programmes in the Scottish Highlands and Islands⁴. The money will come from the European Social Fund, and will benefit 33 programmes in the area that provide skills training and help jobless people back to employment. The Scottish Government expects the funding to help about 7,000 people in the region. The education secretary said *'It is crucial that we equip our workforce with the right skills to reach their potential and so they can play their part in Scotland's future economic success, including helping it recover from the current downturn'*.

⁴ This is likely equivalent to the Highlands and Islands electoral district for the Scottish Parliament. This includes the Highlands council area and most of Moray and Argyll and Bute councils, as well as three island groups (the Hebrides, Shetlands and Orkneys). Or, in other words, where they shot *Monarch of the Glen*.

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March 23rd

48. The Department for Work and Pensions (DWP) announced that **it is offering** £22 million of European Union funds to support programmes that increase skills and employment opportunities. The money will be allocated to 32 programmes, which have been selected through a bidding process and which will receive the money provided they successfully complete the contracting process. The funding will run for three years.

March 24th

49. The housing minister, Margaret Beckett, **announced** that her department will supply £1 million to enlist 'green apprentices', who will be employed in parks and gardens. The Department for Communities and Local Government (CLG) will fund one or two apprentices in 47 local authorities, who can apply *'for a traineeship scheme that will offer them the opportunity to improve their skills and make sure our towns and cities stay green'*. The apprenticeships will be open to people of all ages.

April 15th

50. The Welsh Assembly Government **has announced** it will give that country's FE sector an additional £8.93 million in funding. Sixth forms will be included in the new funding. According to the Welsh government press release, *'the effect of this additional allocation is that, in almost every case, FEIs and local authority sixth form provision will be funded at or above the same level for 09/10 as they were for 08/09'*. The release also said the money would fund at least 2,500 new FE places for youths and adults. John Griffiths, the deputy minister for skills, said, *'We have listened to the concerns of the sector and the issues they face in light of the recession. The government has responded swiftly and positively and remains committed to supporting FE so that they can deliver the necessary training in readiness for the upturn when it comes'*.

April 18th

51. The Scottish Funding Council (SFC), which supplies FE and HE in Scotland, **announced** that it will grant £572 million for Scottish colleges for the 2009-10 fiscal year, including a package of support to handle the recession. The bulk of this will go to paying teachers (£401 million for *'teacher provision'*). The monies include £79 million for bursaries, child care and discretionary spending, a 9.3 percent increase, as the council redirected £6.7 million to help colleges support students during the recession.

April 23rd – Budget 2009

52. The 2009 Budget is unveiled, with considerable new spending for job creation and to support the unemployed. The Budget **promises** £3.1 billion for the unemployed. From January 2010, *'every 18 to 24 year old who is approaching 12 months unemployment or more will be guaranteed a new job, training or paid work experience place'*. This guarantee will be made possible through a Future Jobs Fund of £1 billion, which will fund 150,000 jobs in *'local communities and across the voluntary sector'*.

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53. In addition, the Government will create 100,000 jobs in sectors of the economy which the Government expects to grow. This includes 50,000 jobs in social care through a Care First programme, *'with a £1500 recruitment subsidy offered for sustained employment and training'*, and 50,000 jobs in other sectors, *'with pre-employment training and £2000 recruitment subsidy'* such as hospitality. *'An additional £1.7 billion set aside for the Department for Work and Pensions to sustain the high numbers of individuals currently moving off Jobseeker's Allowance in the early months of each claim and provide support for the minority who remain unemployed for longer periods'*. The Budget also promises £260 million for training and subsidies for areas of the economy that are expected to see further growth, but it's not clear whether this includes the subsidies in the jobs programmes mentioned above.
54. Building on the new industrial strategy [announced](#) on April 20th (*Building Britain's Future: New industry, new jobs* – see Policy Update Number 13), the Government announced a *'£750 million Strategic Investment Fund, ensuring that the UK remains well positioned to emerge from the downturn in a globally competitive position'*. One-third of this money will go towards low-carbon technologies. The fund also includes £50 million for the Technology Strategy Board, a public body sponsored by DIUS, *'to significantly expand its work with business, fostering innovation and new technologies'*, and £10 million to support exporters through UK Trade and Investment. The fund is part of the Government's new policy of 'industrial activism', which calls for providing support to strategic sectors of the economy. It will be echoed by a 'skills activism', which will identify and support the economy's strategic skills needs.
55. The budget announced a £10 billion *'working capital scheme'* for small and medium-sized enterprises, which will include £5 billion in *'trade credit insurance'*. Charities will also receive additional aid worth £20 million, in the form of a Hardship Fund *'to provide grant support to front-line third sector organisations in England adversely affected by the recession, with demonstrable resource constraints due to cash flow difficulties or increased demand'*. This is in addition to £42.5 million announced in February to assist charities (see LSIS Policy Update Number 10).

Also on April 23rd

56. The Department for Communities and Local Government [announced](#) more than £250 million funding for the 2009-10 and 2010-11 fiscal years for the New Deals for Communities (NDC) programme. The programme helps create jobs and fight crime in poorer communities. The programme will receive £186 million in 2009-10, and a further £70 million in 2010-11.
57. Finally, the Scottish Government has opened a £1 million fund [to provide](#) work placements for young people from low-income backgrounds. The Social Entrepreneurs Fund will help *'get new social enterprises off the ground, enabling them to help get people into work and keep Scotland's economy moving'*

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April 24th

58. The Welsh Assembly Government **announced** the creation of a £150 million fund to expand small and medium-sized businesses and create a projected 15,000 jobs in that country. The fund is supported by £75 million from the EU's JEREMIE fund (Joint European Resources for Micro to Medium Enterprises), as well as £60 million from Cardiff's share of European Regional Development Fund monies

April 27th

59. DIUS **has begun** accepting bids for a £7 million fund to set up '*apprenticeship training agencies*' (ATAs) to deliver up to 15,000 apprenticeships by the 2014/15 academic year. ATAs '*are companies or partnerships acting as a recruitment agency, hiring out apprentices to 'host' employers and other organisations*'. This provides extra protection to the apprentices, who can reassign apprentices should the original host employer be unable to keep them on. The £7 million will fund as many as 10 of these ATAs.

April 28th

60. University graduates on unpaid internships **will be entitled** to Jobseeker's Allowance as DIUS prepares for a period of higher unemployment. Under the terms of an agreement between DIUS and the Department for Work and Pensions (DWP), graduates who are on internships of up to 13 weeks will be eligible for benefits, if they have already been claiming the allowance for six months during their initial postgraduate phase of job-hunting. The Government is trying to encourage more small businesses and charities to offer internships, in a bid to reduce unemployment

International response

61. The intention is to develop this section of the website substantially in order to learn from strategies and practices in other countries. Currently it provides headline details of spending plans to address skills and employment in different parts of the world.
62. The UK is not the only nation to include education and training in its stimulus plans. The U.S. economic stimulus plan includes \$150 billion for education, including funding for HE grants, school renovations, education for the poor and disabled and direct support for local school authorities, ranging from \$400 to \$1,250 per child (depending on the wealth of the state in question). The funding is two-and-a-half times the current annual budget of the federal Department of Education. The stimulus package, worth \$787 billion overall, was signed into law on February 17th. Although it is the world's largest stimulus plan, Paul Krugman, this year's Nobel laureate, argues that it's too small to deal with worsening unemployment rates.
63. The United States' stimulus plan is the largest of its kind, but far from the only one; more than 30 nations have enacted stimulus plans in recent months, and many of these have measures related to education. Notable examples:

- The latest German stimulus plan, worth €50 billion (£46.5 billion), includes €14 billion for education and infrastructure spending, according to *Die Welt*. The plan was approved by the German cabinet in January, and completed its passage through the German parliament on February 20th;
 - Australia's government announced \$A1.6 billion in education spending in December, as part of more than \$A30 billion in stimulus spending;
 - Canada's 2009 budget includes \$C8.3 billion for '*skills development and transition support*', with \$C1 billion for training programmes;
 - Thailand's stimulus plan, approved by its Parliament in late January 2009, includes 6.9 trillion Thai baht (£138 million) to re-train unemployed workers;
 - New Zealand's stimulus includes about \$NZ220 million for school renovation and construction;
 - Portugal's €2 billion stimulus will, among other programmes, fund 12,000 paid internships.
 - The Philippines is allocated more than £40 million to its Department of Education as part of its economic recovery plan;
 - Japan published a ¥15.4 trillion (£105 billion) stimulus plan on April 9th, which provides ¥1.9 trillion (£12.95 billion) '*to protect jobs and retrain unemployed workers*'. The April plan is the latest in a series of stimuli, totalling ¥27 trillion since the recession began;
 - On April 10th, France announced a €1.5 billion (£1.3 billion) fund to support the unemployed during the economic crisis, which will support training programmes among other measures. The fund will be jointly managed by the government and by its '*social partners*', meaning employers' organisations and trade unions;
 - On April 15th, the Swedish government the Swedish finance minister announced on April 15th that his government would provide 60 billion kronor (£4.835 billion) in new stimulus spending, despite previous statements that Stockholm's fiscal resources were '*extremely limited*'. The funding includes 10 billion kronor (£805 million) for internships, training schemes and unemployment insurance. The money is budgeted for 2010. The Swedish government will also give 17 billion kronor in aid to local governments.
64. A draft communiqué for the G20 summit, held in London on April 1st and 2nd, includes a brief commitment to increased investment in education and training. The document, published in the *Financial Times*, contains the following paragraph: '*Strengthening labour market and social protection policies will give real help now to those most in need, make the downturn shorter, and the recovery stronger and more sustainable. We welcome the report of the London Jobs Conference and the key principles it proposed. We will support employment by stimulating demand, investing in education and training, and through active labour market policies. We will support disadvantaged and vulnerable groups, including those most affected by the crisis, through social safety nets. We call on the ILO [International Labour Organisation, a UN agency] and OECD [Organisation for Economic Co-operation and Development], working with other organisations, to assess the actions taken and those required for the future*'.

Other effects of the financial crisis

The collapse of the Icelandic banks

65. In late September and early October 2008, the three major commercial banks in Iceland (Glitnir, Kaupthing and Landsbanki) were nationalised. All three banks had made investments abroad far in excess to their available assets, vastly overextending themselves and the whole Icelandic economy.
66. Icelandic banks operated in the United Kingdom (Landsbanki through its Icesave accounts, Kaupthing through Kaupthing Edge⁵ and other subsidiaries), and so their failure affected a wide swathe of public and private savers in the UK. Furthermore, Iceland's parlous financial situation made it unclear whether the country's deposit insurance system would allow UK investors to recover their funds.
67. In late October, the Local Government Association (LGA) found that 123 local councils in the UK had invested nearly £920 million in Icelandic banks. Reports earlier in the months found that Kent County Council had £50 million in Icelandic banks, making it the worst-exposed English council; other local authorities and bodies facing losses included Nottingham City Council (£41.6 million), the London Borough of Haringey (£37 million), Norfolk County Council (£32.5 million) Dorset County Council (£28.1 million), Transport for London (£40 million) and the Metropolitan Police Authority (£30 million). In late October, 12 English and one Welsh local authority told the LGA and the Department for Communities and Local Government (CLG) that they faced 'severe short-term difficulties'. In March 2009, the Government announced it would introduce regulations to 'enable authorities to postpone any possible budgetary impact of this [the bank failure] until 2010-11', by allowing them to keep these liabilities off the books in 2009-10.
68. The third sector was also badly hit by the crisis, with the Association of Chief Executives of Voluntary Organisations (Acevo) reporting potential losses of up between £120 million and £1 billion for the third sector. NIACE alone had more than £1 million in Icelandic banks. In early December, *The Guardian* estimated that £230 million in third-sector investments were trapped in Icelandic banks.
69. HE too was affected by Icelandic collapse, with *The Guardian* stating in mid-October that 12 universities had £77 million in Icelandic banks, including Oxford (£30 million) and Cambridge (£11 million).
70. The British Government has pledged to compensate all individual UK savers who had accounts with Icesave, Landsbanki's UK branch, through the Financial Services Compensation Scheme (FSCS), with some money also coming from the Icelandic government. However, as of early December, some charities were still trying to get their money back from Kaupthing and other Icelandic banks.

⁵ You can still see London taxis carrying Kaupthing Edge advertisements.

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71. In February 2009, the Government announced a £40 million relief package for charities (see paragraph 38). At about the same time, CLG announced that it would allow councils to move their liabilities from the frozen accounts into the 2010-11 fiscal year, making it easier for them to balance their budgets in 2009-10.
72. In March 2009, the last major Icelandic bank, Straumur, was nationalised. Straumur was an investment bank (rather than a commercial one), and its collapse does not seem to have had much impact on British councils, charities or other entities.
73. Also in March, the Audit Commission published a report into the effects of the Icelandic banking crisis on local councils. It found seven English local councils *'negligently'* ignored warning signs about the solvency of Iceland's banks and continued depositing money. It recommended both central and local government review their treasury management procedures.
74. On April 21st, administrators for Landsbanki's UK subsidiary, Heritable, announced that creditors, including local councils, could expect to recover as much as 80 percent of their lost funds, sparking hopes that councils would be able to make good most of their losses. However, the Conservatives pointed out that even if councils recovered that proportion of their funds from all Icelandic banks, the taxpayer would still be out about £200 million.

Debt in FE

75. The National Audit Office reported in late 2008 that FE colleges owed about £1 billion in debts, and that 89 colleges were classified as financially *'weak'* in the 2007-08 fiscal year. The chairman of the House of Commons Public Accounts Committee noted that 19 colleges had debts that exceed 40 percent of their revenue. The collapse of the real estate market has complicated capital spending in FE – many colleges fund capital improvements by selling off land, the value of which has declined.
76. DIUS, the LSC and the Association of Colleges (AoC) all state that the debt burden in FE is not a severe threat to the sector. Ian Watmore, DIUS's permanent secretary, said, *'Should they [colleges] get into difficulties, the Learning and Skills Council has a good, well-established procedure for helping colleges through with a financial recovery plan'*. The AoC observed that college revenues in total are about £7 billion, so the debt is only about 14.5 percent of total revenue. The LSC noted that banks generally consider FE colleges a good lending risk, though only Barclays and Lloyds TSB are major lenders in the the FE and skills market.
77. Questions about capital funding multiplied on January 9th, when the LSC decided to freeze all disbursements under its main capital programme for three months. This led to fears that many tenders would expire and have to be renewed from scratch. The capital freeze was debated in the House of Commons in mid-February, and Siôn Simon, the further education minister, admitted *'nationally, colleges' expectations, and the likely effect of that demand, were not managed as they should have been, and the current situation is unacceptable'*. He added many colleges were suffering because of falling land prices and the difficulty of obtaining credit.

78. On March 4th, the Government approved capital funding for projects at eight colleges, worth about £300 million, but delayed decisions on more than 140 college projects. The Government has appointed Lord Foster to review the capital funding programme, to explain how demand for capital funding could so exceed supply.
79. On April 1st, Sir Andrew Foster published the report of his inquiry into the crisis. In it, Foster said that the LSC and DIUS mismanaged the capital programme and failed to communicate effectively with colleges. Foster said that the programme's problems were *'predictable and probably avoidable'*.
80. The 2009 Budget provides £300 million in extra funding to *'enable the Learning and Skills Council to fund a limited number of further projects through the Building Colleges for the Future programme starting in 2009-10, based on prioritisation criteria to be agreed with the LSC and the sector'*. This will allow some of the stalled projects to go forward.

Unemployment rates, GDP contraction and strains on training programmes

81. According to Jobcentre Plus, the number of people on Jobseeker's Allowance rose by 250,000 between November 2007 and November 2008. As of October 2008, unemployment was at 6 percent, according to the National Statistics Office. This is somewhat lower than in other industrialised countries: in February 2009, the U.S. recorded an unemployment rate of 8.1 percent, while Spain's unemployment rate was estimated by the European Commission to be 15.5 percent on April 1st, 2009. The EU average was estimated at 7.9 percent.
82. In February 2009, unemployment figures showed 1,971,000 unemployed, or a 6.2 percent unemployment rate. The Office of National Statistics (ONS) predicted that the rate would reach 10.5 percent by 2010, while the Confederation of British Industry (CBI) predicted a 9.6 percent rate by mid-2010, while the British Chambers of Commerce (BCC) forecast that 3.2 million would be unemployed by that date (about 9.9 percent). The cost of Government welfare-to-work programmes was expected to triple. In March, figures showed that the unemployment rate had reached 6.5 percent, with just over 2 million unemployed, while DWP reported a rate of 6.7 percent in April. Unemployment has grown fastest in the Midlands, the North of England and South Wales.
83. Graduate unemployment is expected to rise during the recession. A *Guardian* survey of 100 top employers in mid-January 2009 found that, on average, they would be cutting graduate placements by about one-sixth, with heavier losses in the financial services industry. Only the public sector and a few retailers (such as bargain supermarket Aldi) were expanding graduate placements.
84. The number of 16- to 18-year-olds not in education, employment or training (NEETs) rose by 8.5 percent in 2008, increasing by more than 9,000. There were 110,560 NEETs during the period between November 2008 and January 2009.
85. The economy was expected to contract by about 2.7 percent (according to the Bank of England), 2.8 percent (according to the International Monetary Fund) or 3.3 percent (according to the CBI). The Treasury predicted a 3.5 percent decline in the 2009 Budget, but expected the economy to begin growing again in 2010.

86. The Government also notes that there are still 1.1 million vacancies in the British job market, and that at least 250,000 people on Jobseeker's Allowance found work in the third quarter of 2008.
87. There were also fears that the Government's Flexible New Deal, a programme for getting long-term unemployed back to work, would be over-subscribed due to a tripling of expected demand (from 100,000 unemployed to 300,000), and require more funding. The Department for Work and Pensions (DWP) announced in February that it had to redraft tenders to account for increased demand. However, the department said in March that the programme would begin on schedule in October 2009.
88. Similarly, the Government's flagship training programme, Train to Gain, is also facing unexpected strain. The LSC warned in early April that Train to Gain may not have sufficient funds to meet projected demand, if applications for funding continue growing at the current rate. The council, though it considers the increased demand for training '*encouraging*', said that '*left unchecked, Train to Gain and 25+ Apprenticeship activity will exceed the budget allocations we have available in the 2009-10 financial year and create further pressures in future years. The LSC will take action now to agree with colleges and training providers who offer high quality provision against agreed priorities, contracts that enable growth in Train to Gain and Apprenticeships to continue, but within the levels of investment we have available*'. *The Guardian* interprets this to mean that the LSC will attempt to renegotiate existing Train to Gain contracts, rather than impose unilateral changes, which might not survive legal challenges.
89. The magnitude of the slowdown in the private sector suggests that public-sector employment may become more attractive to graduates and others, which could include an expansion in the number of people entering teaching. This would be important if the downturn sees an increase in the number of students (see below). The Training and Development Agency for Schools (TDA) reported in February 2009 a 10 percent increase in the number of people seeking to enter teacher-training courses.
90. There is evidence that the public sector is expanding as a share of the total British economy. A report in *The Times*, dated January 26th, 2009, found that 49 percent of economic activity in Britain was in the state sector, rising to more about two-thirds of the economy in North East England, and more than 70 percent in Wales and Northern Ireland. The article indicated that the growth of the public sector has been a trend over the whole period of Labour government, but adds that '*experts believe the recession will tighten the state's grip still further as benefit handouts soar and Labour directs public sector organisations to create jobs to soak up unemployment*'. The public sector employed 5.7 million in 2008.
91. A March 9th, 2009 press release, issued by the Department for International Development (DFID), announced that 90 million people worldwide may be pushed below the poverty line by the recession by the end of 2010. The poverty line is 90p of income per day. This is between 1 and 1.5 percent of the global population.

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Migration

92. The crisis is also affecting migration patterns. In some countries severely affected by the crisis, such as Iceland, foreign workers have left in droves (in Iceland's case, because that country's currency all but collapsed, meaning Icelandic salaries no longer held much of an advantage over, say, Polish ones).
93. It is unclear whether the recession is discouraging foreign workers from coming to the UK. On the one hand, the Office of National Statistics (ONS) reported in March 2009 that there were 2.4 million foreign workers in the United Kingdom, an increase of 175,000 over the previous year. However, the Home Office and the ONS reported a significant fall in the number of eastern Europeans applying to work in the UK during the fourth quarter of 2008 – 29,000 workers from the new EU states (the 10 admitted in 2004) made applications at the end of last year, down from 50,000 in the last quarter of 2007. The number of National Insurance numbers issued to overseas workers in the fourth quarter of 2008 was 167,000, down from 190,000 in the last quarter of 2007.
94. The recession is affecting migration flows in other parts of the world. The United Arab Emirates is sending hundreds of thousands of foreign (often South Asian) migrant labourers home as the construction industry in places like Dubai falters. The Philippines, which has sent 8 million workers abroad⁶, is seeing many of them return home as economic conditions worsen.

Student numbers

95. The recession means increased demand for college courses, as the jobless are redirected into training and workers seek to make themselves more competitive in a tighter labour market. Also, if jobs are unavailable, people will extend their schooling to wait for a more propitious economic climate.
96. In February 2009, the University and College Admissions Service (Ucas) reported a record number of applicants, with 465,000 for the 2009/10 academic year. This is a 7.8 percent increase over the previous year. Journalism, politics and nursing and economics courses all saw strong growth, while finance and construction courses suffered. Courses leading to public-sector jobs saw strong growth. There was also a large increase in the number of applications for postgraduate study at some universities.
97. The extension of the participation age to 18 immediately, rather than in the next decade, would cause an immediate and definite increase in student numbers, whatever other factors may exist.

⁶ In many countries, they are often employed as nurses.

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98. This means that the FE and skills sector will face increased demand. Between 2001 and 2007, DCSF figures show an 18 percent increase in enrolment by 16 to 18-year-olds at general FE colleges, compared to a 7 percent increase for sixth forms. This is already causing funding problems, as the LSC has not budgeted extra money for these students – Oaklands College, for example, has had to spend between £2 and £2.5 million a year on students not funded by the LSC. These shortfalls may only increase as the financial crisis worsens.
99. In March 2009, the LSC announced at the end of March that it would only fund 96 percent of current 16-year-old enrolment at sixth forms, and 98 percent of such enrolment at FE colleges, despite assurances earlier in the year that there would be full funding.
100. After considerable protest from sixth forms and colleges, the 2009 Budget, released in late April, promises *'that the September Guarantee of a place in education and training to every 16 and 17 year old who wants one will be met in full, an extra 54,500 student places in the next academic year'*. This will be funded by an extra £655 million in spending during 2009-10 and 2010-11. However, *'unit costs for post-16 learners will be subject to a 1 per cent efficiency assumption in 2010-11' 'measured against cost pressures to free up resources to support more personalised learning'*. This is expected to deliver £307 million in savings. More than £800 million in schools capital spending will be brought forward from 2010-11 into 2009-10.
101. The Government has also increased funding for new apprenticeships, and pledged to establish 21,000 apprenticeships in the public sector. However, there is some concern that private employers will terminate apprenticeships to save money. Liberal Democrat leader Nick Clegg said this was already beginning to happen in December 2008.
102. The financial crisis is also increasing pressure on state schools, as some parents can no longer afford private school fees. One in 10 local authorities reported increases in the number of students seeking places in December 2008, including one third of London boroughs.
103. The downturn may also see an expansion among moderately priced public schools. One firm that runs such schools, Cognita, plans to expand the number of schools it operates to 100 (from 46) by 2013. The Headmasters and Headmistresses' Conference (HMC), which represents 250 private schools, found in a February 2009 survey that applications were still increasing, and that very few students were pulling out for financial reasons.
104. However, DCSF is concerned that some private schools may not survive the crisis. In late January, it announced plans to convert financially ailing private schools into state-sector academies, effectively nationalising them. A few private schools are already converting to academies this year, though these claimed their decisions were not motivated by financial difficulties. A significant minority of schools told the HMC's February 2009 survey that they feared they would not survive the crisis.
105. A census of the private sector, conducted by the Independent Schools Council and released in April 2009, showed student numbers to be largely stable. However, the *Financial Times* reported the same month that 25 independent schools had either closed or were planning to close or merge.

HE endowments and possible restructuring

106. The crisis has also slashed endowments for higher education institutions. In December, *The Guardian* reported that these might have lost as much as £250 million, with the University of Glasgow losing a third and University College London nearly a quarter. Oxford and Cambridge were both predicted to lose about 15 percent of their endowments. Although British universities are not nearly as dependent on endowments as their American counterparts, this still represents a blow to the sector's finances.
107. In October 2008, as the Icelandic bank crisis ground on, David Lammy, the higher education minister, told a group of university vice-chancellors that the financial climate might require mergers between universities. *'Do you have the right number of institutions? In the commercial sector there would have to be many mergers over the next few decades – far more than we have seen in higher education. Could more be done to encourage that among universities?'* He also said that universities may form other linkages, such as federations or partnerships.
108. HE has also been affected by budget shortfalls, caused in part due to errors in calculating the HE budget and an unexpected increase in demand for courses. As a result, the Government has had to reduce the number of new places it expected to add for 2009/10 from 15,000 to 10,000, and reduce financial aid for some students (those from families with income of £50,020-£60,000 pa). On the bright side, deflation may mean that some students could theoretically earn interest on their loans (rather than pay interest).
109. An April 2009 policy paper by Policy Exchange, a centre-right think-tank, suggested that the Government should consider merging failing universities in Greater London, where there are already 42 universities. It shied away from suggesting that universities in other areas be shut down, as they were often too vital to the local economy.

Effects on the Leitch agenda

110. The Leitch agenda is the Government's flagship policy on skills. It is based on the thesis that increasing the skills attainment of the population will increase productivity, skills attainment being measured by the proportion of the working-age population with qualifications. It also contends that employers and learners should determine the amount of provision in the system – only the courses they choose should receive public funding.
111. For the past couple of years, the Government has restricted public funding to courses that lead to full qualifications, to meet the Leitch measurements (even though many employers wanted smaller courses that did not lead to qualifications). In the autumn of 2008, the Government relaxed these rules, in an effort to support training and keep people employed during the crisis. Public funding can now be directed towards courses that do not lead to full qualifications.

112. In January 2009, the House of Commons select committee⁷ that oversees skills released a report highly critical of Leitch. It questioned whether there was sufficient evidence to argue that increasing skills really increased productivity, and whether qualifications really did indicate that a person possessed equivalent skills in a real sense. The report also criticised the machinery of government reforms, saying *'the abolition of the LSC and the establishment of the Skills Funding Agency is likely to lead to considerable further disruption and the reward for this is as yet uncertain'*. The report said of Train to Gain that it *'will only achieve its aim of producing long-term improvements in competitiveness if its brokerage service is more closely tied to helping firms develop more ambitious business plans and more tightly linked to wider economic development and business improvement services'*.
113. As noted above, there is also some concern that Train to Gain will become oversubscribed as it becomes more successful. This could force the LSC to renegotiate contracts with providers, and possibly lead to cuts in revenue (see paragraph 88).

What is the FE and skills sector doing?

114. Training occupies a central place in the Government's plans to combat the financial crisis. As a result, the recession presents the sector with a number of opportunities to expand provision, and to play a significant role in the delivery and design of the economic recovery agenda. The downturn may allow the sector to expand its influence.
115. FE and skills providers are already designing programmes to meet the crisis. Some examples:
- Sutton Coldfield College and Matthew Boulton College, two colleges in the Birmingham area, are working with the East Birmingham/North Solihull Regeneration Zone to train job coaches for the unemployed. The project is designed to aid community development and reduce benefits costs.
 - LifeLine, a work-based learning provider in east London, has set up a local employers' coalition with 21 employers who use its job brokerage programmes. It offers skills match for our job seekers and the employer needs
 - Redwood Training and QA-IQ are developing a Level 3 credit-based IT Professional apprenticeship, in partnership with the Sector Skills Council for IT. The new qualification uses the new credit based framework to allow employers in the IT sector to access courses for IT professionals, for example A Plus and Network Plus which can contribute towards an Apprenticeship and higher learning.
 - NACRO Northwest, a charity that works with offenders, is providing Mobile IT Buses to allow people in deprived areas to use the Internet for job searches.

⁷ An LSIS Brief Guide to this report can be found on the LSIS website at <http://www.lsis.org.uk/Libraries/Documents/BGCommonsReport.sflb>

Implications for FE

116. This section signals key consequences for FE and skills arising from the recession. The ambition is to develop a more interactive facility which allows on-line discussion and exchange of perspectives, sharing of strategies and approaches. Many of the points raised below could provide the basis for useful exchange of intelligence and practice. In the meantime, we would welcome views on whether this would be useful and what format you would prefer for such a facility. If you have any views on this, please send them to Ben Margulies, Policy and Research Officer, LSIS - Ben.Margulies@LSIS.org.uk.
117. The financial crisis can be seen both as a threat and as an opportunity for the further education sector, one which could sink providers or harm institutions, but also one that might allow the sector to take a leading role in responding to the recession.
118. On the one hand, the crisis could herald definite decreases in revenue in the medium term. The Government has already told departments to expect £5 billion less in funding than previously projected, and local government, a major commissioner of services, is also expected to reduce spending through 'efficiency cuts'. Businesses often cut training during downturns – this is especially dangerous for FE, which gets substantial revenue directly from employers. Specialist colleges and National Skills Academies are heavily supported by business.
119. In addition, many colleges have spent significant resources on preparing for capital projects which are now on hold as a result of over-commitment of resource by the LSC, creating significant additional financial pressure, slowing new building and possibly damaging relations with the construction industry. Furthermore, the Pre-Budget Report promised a freeze on capital spending in any case in 2011. A rapid increase in the number of students could also strain finances, especially if the LSC or its successor bodies do not increase funding allocations in line with learner enrolment. Conservative spending plans are even more austere than the current Government's, which could herald further cuts.
120. Concurrent with this is the actual credit crisis – that is, the difficulty everyone is having in obtaining credit from banks. This could make financing difficult. Similarly, the property market's collapse will make it more difficult for FE colleges to sell land to raise funding for capital projects or other purposes.
121. The crisis could also strain relations with local authorities, which are expected to work in partnership with FE colleges in the Government's current reform scheme. Local councils will be under new financial pressures, which could affect their commissioning of services from FE; the pressures of dealing with the crisis could also leave less time and patience for partnership work.

122. On the other hand, the FE and skills sector could have a very significant contribution to make in fighting the recession. The Government is committed to investing in training and employment support, suggesting that funding might not be as threatened as the budget cuts may suggest, in the short term at least. Indeed, it's becoming more flexible in the use of Train to Gain funding for example including some funding for units as well as whole qualifications. Furthermore, student numbers tend to rise when the job market fails – indeed, the recession of the early 1990s was a period of considerable growth for FE⁸. The sector can also draw on the new flexibilities introduced into Train to Gain, and there is a potential that these may be extended.
123. The crisis also accords the FE and skills sector an opportunity to play a leading role in developing the policies and strategies used to combat the crisis. Much of the Government's increasingly vital training agenda will be delivered by further education providers, giving the sector increased power and influence by extension. The sector may be able to build on this to make the case for greater discretion to meet employer needs.
124. In the same vein, the crisis could also help to raise the FE and skills sector's profile in the community, as a provider of training to workers, jobless people and those at risk of unemployment. The FE and skills sector has a distinct advantage over HE in this – it is local, works closely with business and the local economy, deals with a wider spectrum of people and is much less expensive to access than universities.
125. The increase in student numbers, as well as the increasing relative attractiveness of public-sector work, may make it easier for FE and skills providers to recruit quality teachers and managers in the current climate. There is already an increase in the number of students studying university courses that lead to public-sector jobs (e.g. nursing or law).
126. The FE and skills sector will also continue to work on its other agendas during the crisis. For example, it will still have a duty to support community cohesion in its locality. This may become still more important, as recessions tend to exacerbate social tensions between groups (for example, the Depression saw the rise of the British Union of Fascists). The Government remains committed to increasing overall skills levels in the long term, to compete with China and India, and the FE and skills sector will continue to play a central role in this.
127. The recession will have a long-term effect on the shape of the economy as a whole – the FE and skills sector will have a role in supporting skills development for the upturn. This will certainly require a shift in patterns of provision and development of new curricula.

⁸ See *Guardian* article on this point:

<http://www.guardian.co.uk/education/2008/sep/02/furthereducation.creditcrunch>