Meeting the Further Education challenge: applying lessons from the NHS

Over the past five years, the NHS has successfully met a £20bn funding gap challenge whilst maintaining some of the highest clinical outcomes in the world. Further Education colleges face a similarly testing outlook. This article explores key lessons for colleges based on 2020 Delivery’s experience of delivering transformational improvements in the NHS.
William Beveridge, the architect of the modern welfare state, identified five ‘giant evils’ facing British society: squalor, ignorance, want, idleness and disease. Beveridge viewed these ‘giants’ as a cohesive social threat that required a unified response – thus, public services were conceived with the same aim in mind. However, while they continue to have many commonalities today, the modern state is poorly connected: education has little interaction with healthcare, which is in turn relatively unconnected with social security, and so on. This brief article focuses on two pillars of the public sector: education (specifically the Further Education sector) and the National Health Service (NHS). It compares the challenges that they face and highlights the insights the latter may bring to the former.

Common challenges facing Further Education and Health

1. **Funding gap**
   Like the NHS, the UK Further Education sector experienced significant increases in funding during the 2000s. However, since 2010 both have felt severe cost pressures, with the NHS having to meet a £20bn ‘efficiency challenge’ and FE experiencing a 25 per cent budget cut between 2010 and 2015.

2. **Change in fundholders**
   The coalition's Autumn 2013 Statement vowed to put ‘employers at the heart of apprenticeships funding’. Since then, the money available through the Skills Funding Agency (SFA) funding has decreased and more has gone straight to employers, with a view to them contracting apprenticeships from FE colleges. The NHS, since the Health and Social Care Act 2012, has faced a similarly radical change to fundholding, with GPs now responsible for commissioning around £65bn of the total £110bn NHS budget for healthcare services for their local populations.

3. **Improving quality of core services**
   Much attention has been focused recently on the need to improve ‘core’ subject areas such as Maths and English, even in highly specialised FE colleges. In a similar manner, a large plank of NHS reforms have concentrated on fundamental services like emergency care, with significant changes planned around workforce and staffing levels on wards and in A&E units, and at the same time many hospitals still have to deliver increasingly complex specialised healthcare services.

4. **Mergers and reconfigurations**
   A large number of NHS hospitals merged between 1997 and 2001, before the NHS spending settlement increased significantly (albeit temporarily). This move towards at least a belief in realising economies of scale has since been mirrored in the FE sector, with greater numbers of merged or federated colleges arising.

5. **Developing leadership and workforce skills**
   A number of commentators have drawn attention to the need to reinvigorate skills and talent in FE to meet the sector challenges ahead. In particular, there are concerns that the relatively closed nature of the sector (with most senior post-holders in colleges having worked exclusively in FE) has potentially stifled enthusiasm for ‘looking outside’ for advice. The NHS has dealt with similar issues, although recently the value of fusing skills from outside the sector with expertise developed from within it has been recognised, most vividly with the appointment of Simon Stevens as NHS England Chief Executive, who, after rising through the ranks as an NHS graduate trainee, held high-profile private sector jobs for United Health in the US.
Lessons from the NHS

Over the past five years, the NHS has successfully met the funding gap challenge whilst maintaining some of the highest clinical outcomes in the world, and without materially reducing patient satisfaction levels. The journey has been anything but easy and there is still a long way to go. Nonetheless, achievement to date has been impressive, and there are a number of lessons the Further Education sector can take from this:

1. **Get a grip on margins**
   A major development in NHS financial operations has been the adoption of ‘Service Line Management’ (SLM). This approach breaks hospitals down into distinct operational business units, with linked revenue flows and internally recharging key support services. This gives greater transparency to the financial efficiency of units. A significant feature of SLM is also to understand operating margins at a service and patient level. This helps to highlight which hospital services may be loss-making, and which ones generate a profit. Hospitals can thereby prioritise their financial strategies; tighten the cost-base on (sometimes inevitably) loss-making services; and seek to grow services which are profitable for the organisation. This approach could translate well to the FE sector, where colleges could benefit from knowing which subject areas are relatively well-funded and growing, and which are loss-making and declining, and prioritise actions accordingly. They could then take into account the broader social value of some subject areas, just as hospital trusts will provide emergency care despite it typically making a loss.

2. **Create a culture of continuous quality and cost improvement**
   All NHS organisations plan for significant ‘cost improvement programmes’ (CIPs) as a part of their annual budgets. These CIPs are usually around five per cent or more of the overall organisation turnover. Whilst the relentless nature of year-after-year of CIPs has been highly challenging for NHS organisations, creating the expectation that CIPs will be a major part of annual activities has helped to foster a culture which focuses on cost efficiency and bridging the £20bn funding gap. The most successful NHS organisations have been those which have managed to develop an exciting and multi-disciplinary approach to improvements that focus on financial and quality improvements which will truly benefit patients, and to engage doctors, nurses and managers in their delivery. FE colleges would undoubtedly also benefit from setting such clear annual budget expectations that engage all staff and focus on improvements which will make a real difference to learners. A five per cent or greater CIPs requirement with detailed schemes to support their delivery could be built into all college annual plans.

3. **Beware mergers**
   The failure to realise the paper benefits of mergers in the private sector is well documented, and public sector mergers can face similar challenges. Few NHS mergers have delivered the aspired-for financial benefits. The experience in FE has to date been little different, although the federated model of colleges offers a greater degree of flexibility. Historically in the NHS, as a Nuffield Trust report (Hurst and Williams: 2012) demonstrated, the greatest source of cost efficiency has been ‘doing more with less’: undertaking more activity with a stable or reduced headcount. Major organisational changes such as mergers can distract from this. FE colleges would be wise to view mergers as a ‘last resort’ and instead focus on increasing productivity, tightening operating margins and setting CIPs as the norm.

FE faces a challenging future, but the sector should take inspiration from the fact that one of its partner services in the British state – the NHS – has already met similar challenges. Though toughened and perhaps a little battle-weary, the NHS has emerged strong. If the FE sector can heed the lessons learned by the NHS then it can do the same.

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