

## **AGENDA ITEM 8**

### **REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET**

**28 SEPTEMBER 2018**

### **REPORT OF HEAD OF SERVICE EDUCATION, EMPLOYMENT AND SKILLS**

### **EDUCATION, EMPLOYMENT AND SKILLS**

## **ADULT EDUCATION BUDGET (AEB)**

### **SUMMARY**

As part of the Devolution deal agreed with government in 2016 Tees Valley Combined Authority will assume responsibility for the Adult Education Budget (AEB) from 2019/20.

Parliamentary Orders were laid before Parliament on the 23<sup>rd</sup> July 2018 with the agreement of each of the Local Authorities and the Tees Valley Combined Authority. The Adult Education Budget that relates to delivery for Tees Valley residents will therefore be transferred to the Tees Valley Combined Authority for implementation from 1 August 2019. An indicative budget has been provided from the Department for Education to aid planning of £30.5m that relates to one academic year of funding. The annual value is subject to confirmation as part of the autumn statement. This budget will be devolved on a permanent basis to provide training for Tees Valley residents only.

In order to prepare for implementation of this budget from August 2019 it is necessary to consider the plan for implementation and the process for awarding funding to a range of Providers.

### **RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Approves the strategic approach that is planned for implementation of the devolved Adult Education Budget.
- ii. Approves the process for the allocation of funding to providers for 2019/20.
- iii. Delegates the operational management, including the funding award administration and the resourcing required for delivery to the Tees Valley Combined Authority Managing Director in consultation with the portfolio lead, Councillor Christopher Akers-Belcher and the elected Mayor.
- iv. Agrees to receive a further report in May 2019 to approve final funding awards to providers.

### **DETAIL**

1. The Adult Education Budget combines the funding for Community Learning and Adult Skills training and funds learning and skills provision for those aged 19 and over, who

are primarily unemployed or low waged in work and wish to access training to level 2 (GCSE).

2. A condition of the devolution arrangement is a requirement of the Tees Valley Combined Authority to continue to fund the current legal Entitlements for Tees Valley residents to access fully funded skills provision, which includes:
  - Adult Basic Skills - English and Maths for those who have not previously achieved a GCSE Grade A\*- C or grade 4 or higher
  - First full level 2 qualifications (19-23 year olds)
  - First full level 3 qualifications (19-23 year olds)
3. From 2020 there will also be a legal Entitlement for learners to access fully funded Digital training. Details of relevant qualifications are yet to be confirmed.
4. Tees Valley residents already access high quality training from a range of providers that include Further Education Colleges, Sixth Form Colleges, Council Adult Education provision and Independent Training Providers. Devolution of this budget will enable greater closer working arrangements with these Providers to enhance the current offer and ensure it is flexible and responsive to changing learner and employer demand.
5. This devolved budget will allow the Tees Valley Combined Authority to plan and influence skills and training provision to ensure Tees Valley residents have access to skills and training from Entry level to Level 3 (approx. A-Level) qualifications. Eligibility criteria will continue to apply to provide this at no cost to the learner. Devolution will, in time provide an opportunity to flex this eligibility criteria and provide simpler pathways to progressive learning directly linked to employer demand.
6. It is intended to maximise funding to the learner by creating a system that focuses upon measuring and delivering better outcomes for all learners. In time this will provide a progressive offer that creates lifelong pathways of learning to identifiable outcomes, including career pathways. This is particularly important for learners who may begin their journey with community level learning or access retraining later in their lives.
7. Better and timely local performance management of the skills system will provide evidence as to the impact that this budget has on addressing unemployment and skills gaps identified by employers. It will also provide evidence as to the best progression routes for learners, to reduce the widening gap of Tees Valley residents with no qualifications compared to national levels.
8. The current funding and reporting systems are unable to demonstrate the local impact that Adult Education Budget is having on the Tees Valley economy or learner outcomes. The existing system also supports providers towards maximising their funding allocations, including the management fees linked to sub-contracting, whilst constraining their ability to respond to employers' demands.
9. In the first year of the devolved budget the Tees Valley Combined Authority will develop a strategic approach to evaluate the performance of providers to support and move towards a system that:
  - simplifies the system through better relationship management with a manageable number of providers;
  - maximises funding to the learner;
  - prioritises delivery that is most advantageous to Tees Valley, (including in strategic and economic terms);
  - supports a sustainable skills provider base in Tees Valley;
  - supports appropriate, value for money sub-contracting;
  - establishes better measurement of learner progression, particularly from community learning to more formal learning;
  - introduces outcome performance management, including recording and analysing destination of learners;
  - supports High Quality provision; and
  - provides skills provision directly linked to employer demand

## **Strategic Approach Year 1 – Academic Year 2019/20**

10. The Tees Valley Combined Authority will implement an operational approach that will allow a closer working relationship with providers, to ensure that there is a more planned and informed approach to the use of the Adult Education Budget. There will also be a strong emphasis on drawing on their experience, skills and insights whilst at the same time supporting a sustainable provider base that responds appropriately to learner and business demand.
11. It is intended that in the first academic year of devolution the Tees Valley Combined Authority will minimise disruption to accessible provision to ensure that the current offer of learning is maintained whilst collating timely and specific delivery data. Analysis will be undertaken to ensure that delivery is contributing to the strategic and economic aims for Education, Employment and Skills in Tees Valley.
12. The aim will be to stabilise established, economically and strategically significant training provision for both Tees Valley learners and employers. The priority will be given to high quality provision which delivers good strategic and economic outcomes for the Tees Valley.
13. The latest data currently available to Tees Valley Combined Authority for analysis to inform future delivery is for 2016/17 academic year. Establishing strong relationships with providers and collecting in year performance data will be critical to identify change required for future years.
14. In order to maintain stability of the provider base it is intended to initially retain current Education Skills Funding Agency (ESFA) funding rules and formulas. This will enable providers to continue their current budget setting process as part of their regular business and curriculum planning as we enter this period of change. This will also enable the assessment of value for money against a tested and current baseline that will help inform the future changes that would be beneficial to Tees Valley.
15. The Tees Valley Combined Authority will commit to maintaining current timescales for funding awards to enable effective curriculum planning for academic year 2019/20. This includes providers publishing their prospectus to attract learners prior to summer break 2019. In order to achieve this, it will be necessary to have indicative funding allocations identified in March 2019 and legal agreements in place by June 2019. In order to achieve this timescale the process for funding award will need to commence from October 2018.

## **Current Delivery**

16. In order to develop a strategic plan for implementation it has been necessary to understand current delivery in detail. The most recent full year data is for academic year 2016/17.
17. In 2016/17 the ESFA funded 177 skills providers that delivered adult skills provision to Tees Valley residents and it is unlikely that this has changed significantly. These providers were funded by the ESFA on either a “grant funded” or “contract for services” basis and are a combination of colleges, local authority providers and independent training providers who were based in Tees Valley (10%), the North East region (20%) or nationally (70%).
18. Of the 177 skills providers, there were 114 providers who are “grant funded”, with 14 of these being located in Tees Valley and 18 located in the North East region. In addition to the 114 grant funded providers there were 49 Contract for Services providers.
19. There were also 92 providers who were sub-contracted to one or more of the main providers. These sub-contractors were primarily independent training providers who were either based in Tees Valley (26%), the North East region (44%) or nationally (34%).
20. The Combined Authority has sought external legal advice regarding the options for establishing funding awards via an open and transparent process as required as part the devolution deal.

21. This advice has established that the Combined Authority can undertake a process to establish funding arrangements for all providers. In addition to this, the Combined Authority may also put in place an arrangement to establish a framework for ad-hoc or specialist training as required. The funding process would be undertaken via a prioritisation approach for delivery period 2019/21. Extension beyond July 2020 will be subject to satisfactory delivery and performance.

### **Scenario Planning**

22. In order to establish an understanding of current provision and test various scenarios for awarding funding to providers, several options have been considered. Data interrogation and analysis has been tested against five scenarios. The scenario models considered were based around minimum contract values, accessibility of learning and direct funding awards. Further sensitivity exercises have been undertaken against the 114 grant funded providers to consider as much as possible, the unintended consequences of the funding process and the direct implications to individual providers.
23. In order for the Tees Valley Combined Authority to begin the process of how to award future AEB funding, the 2016/17 ESFA full year provider data has been extensively interrogated and analysed. The analysis of this data has included:
- What is currently being delivered to Tees Valley residents?
  - Who are the providers that are delivering this provision?
  - Where is it being delivered - locally, regional and nationally?
  - How is provision being delivered (direct, sub-contracted or distance learning)?
  - What sectors are the qualifications being delivered in?
  - Number of learners accessing AEB?
24. Further analysis of the year to date data for the academic year 2017/18 has also been undertaken. To date there has been no significant change to delivery and performance compared to 2016/17 which would impact on our current approach. Full year data will be available in November 2018 that will inform any additional actions required as part of the funding award process. As the process is reliant upon the submission of provider led delivery plans, it is unlikely that significant change will be required.
25. It is not considered practical or appropriate to establish agreements with all 177 existing providers as this would impact on the resourcing levels required by the Tees Valley Combined Authority to manage those providers and also reduce the potential to effectively performance manage them.

### **Process for funding award**

26. It is recommended that the Tees Valley Combined Authority seek to implement, subject to legal assurance a scenario that establishes funded arrangements with providers, with a minimum contract value of £50k. The process would prioritise funding applications which offer the best outcomes for the Tees Valley (including in strategic and economic terms).
27. Providers wishing to secure a funding award under this arrangement will be expected to submit a delivery plan which outlines how they will meet the needs of Tees Valley learners and the level of their intended delivery for academic year 2019/20. Previous track record of delivery at the level quoted will be an important factor in the evaluation process.
28. In line with the devolution funding allocation process it is anticipated that delivery and funding will be at similar levels to the Academic Year 2017/18 and will be subject to adequate funding being received by the Combined Authority from the Department for Education.
29. The assessment process will be in line with the Treasury Green Book principles and the Combined Authority's Assurance Framework. Priority will be given to those delivery plans that will deliver the most benefit to the Tees Valley, including in terms of strategic and economic impact. The stability of the current provider base should not

therefore be affected. A sensitivity analysis has been undertaken to ensure that smaller, niche or specialist providers are also not adversely affected by this approach. This approach will enable smaller, community providers to continue their existing sub-contracting arrangements.

30. A process to secure call off, ad-hoc or specialist provision that would be responsive to labour market changes and employer demand may also be established as need demands. This is likely to be via a Framework contracting model.
31. Our approach is likely to result in a reduction of nationally based providers, the majority of which are based some distance outside of the Tees Valley and the North East region, therefore the direct accessibility to skills provision for Tees Valley residents would not be adversely affected. The provision that is currently offered by these providers is substantially duplicated. Data analysis concludes that there is no specialist or niche provision being delivered by any of these main providers or their sub-contractors on a local, regional or national basis. The average contract value of the providers expected to be displaced is £10,800 p.a. to an average of 20 Tees Valley residents.
32. Based on 2016/17 data this could reduce the 177 funded providers to approximately 80, who are in the main based in the Tees Valley and North East. However, it is likely that this number will be lower as many will be likely to continue their current sub-contracting arrangements. This would support the aim to establish stronger management arrangements and relationships with fewer providers. In addition the management resources required by the Tees Valley Combined Authority would be less than if the number of Providers remained at 177.
33. This scenario would have the least impact on learners being able to access learning. As a comparison, based upon learners accessing training in 2016/17, 1804 potential learners would be affected in this scenario (approx. 3.6%). As the provision being accessed by those learners is duplicated, future learners could still access their learning from alternative providers.
34. An additional £1.4m would be available to be reinvested in Year 1 from displaced provision.
35. This scenario would have the least impact on displacing any sub-contractors who are in the main (72%) Independent Training Providers based either in Tees Valley or the North East region.
36. This also provides an opportunity to begin to reduce the level of sub-contracting in year one by at least £500k with the aim of further reduction from year 2, following further analysis to ensure that further funding is maximised to the learner. This will enable sub-contracting management fees to be re-invested in direct provision.

#### **Timescales for Funding award for 2019/20**

37. It is proposed to implement the following funding award timeline:

- Launch of funding opportunity                      26<sup>th</sup> October 2018
- Provider Information event                              W/C 5<sup>th</sup> November 2018
- Closing date for submission                              18<sup>th</sup> January 2019
- Indicative Funding awards                              5<sup>th</sup> April 2019
- Cabinet approval of funding awards                      May 2019

#### **Performance Management**

38. To establish the funding arrangements the Tees Valley Combined Authority will require providers to submit a delivery plan as part of the application process. This delivery plan will include details of the qualifications, learner numbers and anticipated performance levels to be delivered. It will highlight any sub-contracting and associated delivery arrangements. The plan will allow providers to set out the detail of their intended delivery to meet the needs of Tees Valley residents, employers and local strategic and sector priorities. The delivery plan will be assessed in its totality against

the impact that it will make in contributing to all aspects of adult learning across Tees Valley.

39. Engaging providers that deliver high quality provision and outcomes to Tees Valley residents is of high importance. Therefore, in order to ensure the high quality of provision that is delivered and maintained under the Adult Education Budget, there will be in year performance monitoring, specifically focused on learner outcomes and positive progression. Similar levels of performance monitoring will be carried out for subcontracted delivery.
40. It is realised that in the first year any significant change to the existing provider funding methodology and core data collection arrangements could destabilise the current provider base. It is therefore the intention to minimise disruption to existing systems and processes for providers. The Tees Valley Combined Authority will therefore be adopting many of the existing ESFA funding policies and contractual conditions and documents for 2019/20 and 2020/21, with the intention of developing and testing new models under a shadowing arrangement to help inform new approaches to funding models in 2021/22.
41. The Combined Authority will reserve the right to reconcile significant underperformance at a mid-year point and adjust payment profiles from March onwards. In addition the ability to stop payment will be retained if any inappropriate, illegal or unsatisfactory delivery is undertaken.

#### **Tees Valley Combined Authority Management costs**

42. For the purpose of effectively managing the implementation and delivery of this devolved funding, the Tees Valley Combined Authority will require additional resources to carry out the required functions. In collaboration with the other devolved areas joint working and challenge has been made to the Department for Education to request and maximise additional administrative funding to support implementation.
43. It is recognised that the functions required to be provided include:
  - Modelling and impact assessment
  - Allocation of funding
  - Audit management
  - Financial Claims and payments
  - Data collection and analysis
  - Provider performance management
  - Provider relationship management
  - Evaluation
  - Intervention functions for non-compliance
  - Policy development
  - Support services-communications, legal advice, technical support for IT systems
  - Communications
44. The Adult Education Budget is devolved in a manner that assumes a top slicing of the devolved funding for management resourcing. The ESFA currently utilises funding to administer the Adult Education Budget from a wider administrative budget.
45. Joint working is taking place with the six other Mayoral led Combined Authorities that are receiving this budget to collaborate and consider a consistent approach on this matter where possible. All Combined Authorities are considering their requirements at the present time. Current estimates are that an average of around 2-3% will be utilised for management resourcing.
46. Top slicing of the devolved budget will be minimised where possible and where appropriate, existing functions within the Combined Authority will be utilised to support the implementation and management of this function.
47. Ongoing review of the resourcing required will be undertaken to ensure resourcing is appropriate to the level of commissioning and performance management required.

## **FINANCIAL IMPLICATIONS**

48. The funding allocation to the Tees Valley Combined Authority will be awarded on an annual basis and is subject to the annual Autumn Statement. The initial allocation for 2019/20 will be made from a formula provided by the Department for Education based on 2017/18 actual delivery to Tees Valley residents.
49. In future years the allocation will be made upon the percentage allocation made in 2019/20 against the overall budget available in England as part of the Autumn Statement. This percentage will then be used as the baseline for the calculation of budgets from the 2020/21 Academic Year onwards.
50. The Department for Education has confirmed that Transfer of Undertakings Regulations 2006 (TUPE) conditions do not apply to the devolution of the Adult Education Budget to the Combined Authority.
51. Financial costs:
  - From 2019 all management costs and operational costs will be covered from the devolved funding allocation.
  - The decision making timeline will ensure that no binding funding obligation will be entered into until such time as the devolved budget from the Department for Education is confirmed and received.
  - Grants and contracts will be awarded within the annual budget envelope and there will be no scope for over profiling.
52. External Audit arrangements will be secured to provide assurance of legal compliance.
53. DfE has not made funds available to meet the management costs of delivery and have instructed that the Combined Authority's management costs should be top-sliced from the devolved budget. Comparative assessment has been carried out and will continue with the other devolved areas.

## **LEGAL IMPLICATIONS**

54. The Tees Valley Combined Authority has sought external legal advice on a number of matters related to the award of funding which include:
  - The proper categorisation of the arrangements the Combined Authority intends to enter into with training providers, that is, specific options for funding agreements
  - The considerations to be taken into account when drafting funded agreements
  - Decommissioning existing funded provision within a minimum funding value
  - Procurement of call-off, ad hoc or specialist training provision
  - Any risk in seeking to restrict sub-contracting management fees
  - Any risk in potentially making a funding award for longer than one academic year, subject to funding allocation to the Tees Valley Combined Authority
55. A requirement of the Devolution Deal is to establish a Conflict of Interest policy and external and independent legal advice has been sought to advise on the production and implementation of the policy. The advice gained highlights the required recording processes for identifying any potential conflict, alongside the consideration of establishing Ethical Wall agreements to distinguish between individuals acting as stakeholders and consultees.
56. A project risk register is in place for the implementation of the Adult Education Budget and has been submitted and considered by the Audit and Governance Committee. The register will be up-dated and submitted to this group for further consideration on a regular basis.

## **CONSULTATION & COMMUNICATION**

57. Throughout the recent months the Adult Education Team has undertaken consultation and feedback with the Tees Valley Management Group, Audit and Governance Committee, the Business LEP members, Tees Valley Chief Executives and Council Leaders, Education, Employment and Skills Officer Group, Education and the Employment and Skills Partnership Board.
58. An Adult Education Budget Steering Group of key stakeholders (Local Authority, Further Education Colleges, Association of Colleges and ESFA) was established for consultation purposes and their input has been invaluable in challenging and informing the Combined Authority's strategic approach.
59. In addition, the Combined Authority has offered consultation opportunities to existing and interested providers, via stakeholder events in June and September. Further similar events will be hosted and information available as appropriate on the Combined Authority's website to ensure effective communication is undertaken and providers are as informed as possible.
60. Regular joint meetings have been held with all 6 devolved Mayoral led Combined Authorities, the Greater London Authority, ESFA and the Department for Education to compare approaches, learn from each other and both support and challenge our individual approaches.

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