

## EDUCATION, SKILLS AND EMPLOYMENT THEMATIC BOARD

30 October 2020

### Skills Bank – Future Options

#### **Purpose of Report**

This discussion paper sets out for Board the current status of the regional Skills Bank programme, commissioned by the ESFA on behalf of the LEP and presents for consideration some future options regarding the programme operation.

#### **Freedom of Information**

The paper will be available under the Combined Authority Publication Scheme. This paper may be released under a Freedom of Information request.

#### **Recommendations**

That the Board

1. Agree that the short-term sustainability options are progressed to maintain the Skills Bank service, including the back-stop suggestion of extending the SLA agreement to ensure continuity.
2. Discuss the longer-term sustainability options for the Skills Bank and agree to a specification being developed and presented to the next board.
3. Consider the future funding options presented, in advance of making the final decision on AEB commissioning.

## **1. Introduction**

- 1.1** In 2015 the SCR LEP secured a six-year deal with Government for funding of £21.6m to develop and deliver the Skills Bank project. The Skills Bank was designated as a national demonstrator project (one of three nationally), as its ambition was to test a new and different model of co-investing in deals with businesses for their workforce.

Whilst the government has moved away from its interest in national demonstrator projects, the role the Skills Bank has played in the region in shaping business offers, on a co investment basis, has been established as a valuable and much needed part of the training architecture. The agreed Operating Model of the Skills Bank is summarised for Members in Appendix A.

- 1.2** To date, 1,061 business applications have been received and 935 applications approved. Through the Skills Bank, 15,704 employees have been supported to develop their skills, with an additional 400 due to commence training imminently.
- 1.3** Recent work on the Comprehensive Skills Review submission advocated for the continued use of the MCA / LEPs successful Skills Bank project, as the approach to

matching public sector investment with private sector funding to unlock additional employment and productivity gains with a new focus on extending the model further.

- 1.4 The current Skills Bank Operator procurement, led by the ESFA, concludes at the end of this financial year and therefore a next phase of the Skills Bank requires operationalising. This paper seeks the Boards agreement to an option presented.

## 2. Proposal and justification

### 2.1 Short Term Sustainability Option

The current operating model, procured on behalf of the LEP by the Education and Skills Funding Agency (ESFA), is due to conclude at the end of March 2021. To avoid a cliff edge of months without a Skills Bank service there are three options we can progress

#### 2.1.1 **OPTION 1:** ESFA extend the contract for 6 months.

This option enables additional time for the procurement of the next phase of the Skills bank to be agreed. However, it maintains the involvement and contractual control of the ESFA delaying further local direct control.

It is believed the ESFA are seeking to withdraw from these bespoke local arrangements and so this option is possibly unlikely to be agreed by the agency.

#### 2.1.2 **OPTION 2:** ESFA extend the contract with the Skills Bank Operator (Calderdale College) and novate to the MCA for the MCA to directly control from April 1<sup>st</sup>. Or the ESFA immediately novate their contract and the MCA Executive for the MCA to extend the agreement with the Skills Bank Operator.

This approach will give stability for a duration of 6-12 months to give increased time to procure the next phase of the Skills Bank.

#### 2.1.3 **OPTION 3:** The ESFA refuse to extend or novate. This leaves one final option that is focused upon utilising the Innovation Fund that Calderdale have generated as a consequence of running the Skills Bank. This approach would see the MCA extend a Service Level Agreement currently in place with Calderdale College to enable them to utilise the retained Innovation to fund the continuation for a defined period.

An explanation of how the Innovation Fund is created is included in Appendix B. As with option 2 this will give stability for a duration of 6-12 months to give increased time to procure the next phase of the Skills Bank.

- 2.2 The MCA Executive have entered into discussions with the ESFA regarding their appetite to extend the contract. If these discussions are not fruitful the final option of extending the SLA directly is suggested to be progressed to ensure at this critical time for business, there is continuity of service.

### 2.3 Longer term options for the Skills Bank

In addition to finding an immediate short-term sustainability option, there is a requirement to put in place the next phase of the Skills Bank. This will be the first phase of the Skills Bank directly commissioned by the MCA without the ESFA leading the procurement, which will be beneficial to the service delivered. A detailed specification of the service will be worked up and brought to the Board for consideration. This specification will be based upon the continuation of the original principles agreed, with the Board invited to critique these and consider any new areas for development. In order to work up this specification the Board is asked to consider future financing of the Skills Bank.

There are two options for the future financing of the Skills Bank service, briefly set out below:

### **2.3.1 OPTION 1: Continue the Skills Bank utilising only the retained Innovation Fund**

The financing model agreed with the ESFA enabled the potential for the development of an Innovation Fund. The Innovation Fund model was developed to:

- a. consider the sustainability of the Skills Bank beyond the finance made available by the ESFA
- b. to be able to supplement Inward Investment deals where an attractive training offer could be part of the regional offer.
- c.

The financial Model of the Skills Bank, that led to the creation of the Innovation Fund is set out in Appendix B.

The current Innovation Pot held in a Skills Bank Reserve by the MCA on behalf of the LEP is £5.084m with a further £1,46m already held by the Skills bank Operator and a further £1,15m forecast to be generated by June 2021. Total of £7.69m

Based on current spend profiles it is envisaged that this could sustain the Skills Bank for two additional years

### **2.3.2 OPTION 2: Continue the Skills Bank utilising some devolved AEB Budget and the Innovation Fund**

The original deal made with Government, saw the government top slice the Adult Skills Budget (ASB), the predecessor fund of AEB, to fund the Skills Bank by £3.62m per year. The MCA in commissioning AEB could consider supporting skill development of the workforce fully or partially via the Skill Bank route.

The injection of new AEB resource into the Skills Bank would create a sustained route for the Skills Bank for the next three years, aligning with the AEB procurement timeframe, which can be utilised alongside the Innovation Fund.

### **2.4 Option 2 is the preferred option for a number of reasons:**

- The approach supports the agreement of the Board to utilise the Skills Bank as a significant element of its training infrastructure, outlined in the RAP and CSR submission
- Utilising AEB resource enables the Skills Bank to be procured to match the agreed timeline of the AEB programme
- This gives greater business confidence of a sustainable and available offer over the next three years as businesses seek to grow, refocus or maintain resilience as a result of COVID.
- Option 1 would see the Skills Bank conclude prior to the second local AEB procurement exercise (scheduled for 2024) leaving a gap in the service to business

### **2.5 The proposal section above, outlines a range of short- and longer-term options for the continuation of the Skills Bank.**

Subject to the Boards discussion, a more detailed business plan would be developed for consideration and consideration of the use of AEB would be brought back to the Board to consider as part of its agreed AEB procurement approach.

## **3. Consideration of alternative approaches**

Subject to discussion and agreement of the continuation of the Skills Bank Operating Model, there are two delivery options to consider. Firstly, that the MCA Executive become the Skills Bank Operator or as is currently the case an independent Skills Bank Operator is procured. Each delivery option is detailed below:

### **3.1 Delivery Model 1: MCA Executive run the Skills Bank**

Whilst this model would have the benefit of closer oversight of activity and remove the need for procurement this is not a preferred option to progress for this next immediate phase. The rationale for discounting this option is:

- Lack of infrastructure in the MCA Executive to manage the volume of business through the Skills Bank, both in terms of processing deals and paying deals
- Lack of expertise to quality assure the training delivery partners

### **3.2 Delivery Model 2: Procure the Skills Bank Operator via an open process**

This option is the preferred approach to delivery of the next phase of the Skills Bank, albeit there are two alternative procurement strategies that could be followed:

#### **3.2.1 Delivery Model 2 (a) Procure as part of the AEB procurement exercise soon to go to market**

In discussion with the team leading AEB this approach is the least preferred option. The rationale for this is:

- Market Confusion: AEB offers fully and co-funded training whilst Skills Bank is based on the principle of employer co-investment, the danger is this could create unnecessary confusion in the specification of the service for both the Skills Bank and the proposed Lots for the mainstream AEB programme
- The principle of the Skills bank Operator being independent of delivery – The AEB programme is procuring delivery only, whilst Skills Bank seeks an independent operator who puts in place the delivery infrastructure and procures delivery partners in response to business requirements

#### **3.2.2 Delivery Model 2 (b) Procure as a standalone procurement exercise but run this in parallel with the AEB exercise**

This is the preferred option as it mitigates against the risks identified in section 3.2.1 above.

Whilst this will involve two parallel processes it will enable specificity in target the services to be bought

## **4. Implications**

### **4.1 Financial**

The paper sets out the potential for the future of the Skills Bank utilising either a blend of local devolved AEB allocation and the Innovation Fund or Innovation Fund only. The Innovation Fund is currently held in reserve for the LEP by the MCA.

A full operating and delivery model specification will be developed and presented to the Board which sets out the financial implications of the continuation of the Skills Bank model.

### **4.2 Legal**

The immediate legal implications associated with the short-term solution are to agree with the ESFA whether a contract novation from government to the MCA will be required or whether the MCA will extend the option in the SLA agreement it has with the Skills Bank Operator.

The longer-term model will involve a procurement exercise be undertaken to deliver the next phase of the Skills Bank.

### 4.3 Risk Management

A full risk plan will be developed as part of the specification development phase. The direct management of the Skills Bank Operator, by the MCA Executive will mitigate some of the risks experienced by businesses in the early years of the Skills Bank, where the arm's length contractual relationship led to a number of operational and reputational risks materialising.

The main risk associated with the proposal is that the service ends with a significant gap between this and the follow-on service. At a time of high business insecurity this risk would have significant economic impact for our businesses.

In mitigation of this risk, the short-term solution outlined in section 2.1 is a response to minimise any cliff edge in the loss of service and the offer. Alongside working at pace to develop, agree and procure the next phase of the service this should reduce this risk. A second risk is the availability of funding for business deals. The Innovation Fund reserve is of a scale that will continue the Skills Bank for c 2 years. Using this as the sole source of finance will reduce the flexibility the region has to make significant deals in support of new investment and also reduce the ability to offer highly subsidised deals in the context of COVID.

A third risk is that the MCA is challenged on its decision to top-slice AEB to support a specific project rather than include it in the AEB procurement round. In mitigation of this, a requirement of Skills Bank Operator is that delivery partners are procured to a framework and that the funding for deals regardless of the source of the funding (AEB and Innovation Funding) would be subject to a competitive process driven by market choice.

### 4.4 Equality, Diversity and Social Inclusion

The Skills Bank Operator as a contractual requirement monitors all data on take up and beneficiaries supported.

## 5. Communications

- 5.1 The Skills Bank has been supported by a detailed communications plan. A recent business webinar saw positive feedback on the service and the offer by businesses. Subject to decisions made by the Education, Skills and Employment Board and the LEP and MCA, a further detailed communications plan will be shared with the Board for approval.

## 6. Appendices/Annexes

- 6.1 Appendix A – Skills Bank Operating Model  
Appendix B – The Skills Bank Financial Model

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references: