

**EDUCATION, SKILLS AND EMPLOYABILITY BOARD**

**05.01.2021**

**Skills Bank Next Steps**

**Purpose of Report**

Following discussion at the October meeting about the future of the Skills Bank, the Board asked for a report outlining how this programme would operate in its next phase, utilising the funds held for the LEP by the MCA in the Skills Bank Reserve.

This paper outlines for Members the Skills Bank design principles and poses a number of questions for debate on whether the principles as established continue to form the basis for the offer and approach to businesses. The paper outlines a high-level operating model for consideration and debate and further seeks a steer from members on the role of social value in the deal making process.

Following discussion, a fuller detailed business case will be developed and options on the business case presented to the Board for endorsement before being ultimately being presented to the LEP Board for a decision on the model and approach and to the MCA to release an amount of the reserve for deployment in 2021/22.

**Freedom of Information**

The paper will be available under the Combined Authority Publication Scheme

**Recommendations**

That the Board consider and agree:

1. The principles that the Skills Bank is built upon and whether the principles as set out in para 2.1 (sections 2.2.1-2.1.6), should continue to form the basis for the operating model;
2. The components of the operating Model, as set out in para 2.2 (sections 2.2.1-2.2.6),
3. The role social value indicators should play in establishing how a deal is constructed and the additional value that can be levered as a consequence;

**1. Introduction**

- 1.1** The Skills Bank, developed in 2014, was one element of a broader programme seeking to deliver the outcomes of the original Strategic Economic Plan. The Skills Bank development was led by the LEP working with an Advisory Group made up of business representative bodies including the Chamber and the FSB, businesses, Colleges, Private Sector Training Providers and the TUC.

When developed, the Skills Bank formed an integral component of the Growth Deal negotiated between the LEP Board and national government and the LEP were in receipt of 6 years of investment totalling £21.6m. The funding model agreed with national government has enabled the creation of an Innovation and Capacity Pot to sustain the Skills Bank after the initial investment.

- 1.2 The model was based on a defined set of principles and was aimed at stimulating private sector growth through supporting business diversification and increased levels of investment. The programme, in stark contrast to other workforce development offers, was designed as part of the region's business support offer seeking to stimulate growth and not as an offer to remediate deficits in education or training amongst the working aged population nor to focus on supply-led skills development.
- 1.3 In the first 6 years of operation, the ESFA, rather than the MCA, managed the programme. Unfortunately, this resulted in the dilution of a number of the core principles. The next iteration of the Skills Bank will be directly governed locally by the LEP / MCA without the involvement of the ESFA and therefore there is the opportunity to fully focus on the agreed principles that the model was founded upon and to focus and prioritise activity based upon local priorities.
- 1.4 In response to the discussion paper presented to the Board in October 2020, Board Members requested that the next stage of the Skills Bank be scoped utilising the funding held in reserve only. This paper seeks to engage the Board in discussion on:
- The design principles of the Skills Bank based upon the original model developed and agreed by the LEP, under the direction of the then Skills for Growth Partnership Board, for consideration and validation.
  - The high-level operating Model and programme components

## 2. Proposal and justification

### 2.1 Skills Bank Principles

The Skills Bank assumes a market led, demand driven position, developed with the following principles at its core:

- 2.1.1 Businesses are rational and commercial and will invest in strategies that they assess will give a corporate or economic return on investment. The model is based therefore on a mandatory business contribution towards paying for development and training. The level of co-investment by the public sector to be based upon the estimated rate of return to the economy in terms of metrics including new jobs, productivity, access to new markets etc.
- 2.1.2 Aligning public sector investment in training to the areas that are most likely to bring about business or economic growth. The Skills Bank invests in areas previously out of scope for public investment for example Prince 2 or technological vendor qualifications.
- 2.1.3 Success measures are linked to the business return and not to completion of a qualification. If qualification-based training is funded as part of a deal the success measure will remain as the impact to the organisation in terms of its growth as opposed to the qualification per se.
- 2.1.4 A deal does not necessarily involve spending the Skill Bank money. If the business growth objectives can be achieved and supported by the core training products in the market eg those funded through Adult Education Budget, Kickstart or Apprenticeships, this is a successful outcome as it signifies the mainstream market is demand responsive.
- 2.1.5 A deal will normally be multi-faceted. Invariably business growth is not dependent upon a single corporate development need. Deals can therefore be long term and potentially complex arrangements.
- 2.1.6 Market driven model, whilst mindful of quality issues, businesses have choice of the partners they work with. They are not forced to use a pre-determined model, nor a set format for training.

### 2.2 The Operating Model

The operating model was reviewed by the LEP Board at the midpoint of the Skills Bank programme and changes made based upon business feedback and monitoring evidence.

### **2.2.1 The Skills Bank Operator**

The operator of the Skills Bank is independent of the training delivery infrastructure. This was designed into the model following feedback that identified models integrating management of a programme alongside delivery had an increased potential for a business to be sold the training offer of the Managing agent, at the expense of a more dispassionate impartial discussion and the building of a wider local training supply chain.

### **2.2.2 Independent brokerage**

The evaluation of the Skills Made Easy programme, received business feedback valuing an impartial service that challenged business strategies for their workforce, was able to refer to a wide breadth of options including apprenticeship provision or mainstream AEB, in addition to constructing a potential deal.

In the first procurement of Skills Bank by the ESFA the brokerage was integrated into the Managing Agent. At evaluation, the first phase model was perceived to perversely skew the operator to delivery of Skills Bank first deals as opposed to exploring with the business the other options including AEB and apprenticeships. This was changed in the second iteration where the brokerage became an integral part of the Growth Hub offer. The primary role of the independent brokerage is as much about supporting a business to access national and regional offers including apprenticeships, AEB and Kickstart for example, as it is about accessing the Skills Bank funding.

### **2.2.3 Marketing and Communications of the Skills Bank Service**

The marketing and communications activity in the first three years of the Skills Bank was managed directly by the Operator. In the second iteration this was led by the MCA Executive in conjunction with the Operator. This has enabled greater control the key messages about Skills Bank, and improved alignment with LEP, MCA and Growth Hub communications and campaigns. It has enabled the opportunity to flex communications to respond to specific business priorities as and when required.

### **2.2.4 A locally based delivery training supply chain**

The model requires the Operator to develop a locally based training supply chain, made up of Colleges and Independent Training Providers. The stipulation of the Operator not being able to deliver training activity means they need to access and work with a breadth of suppliers to meet the specific requirements of businesses. Once a deal has been secured the employer has the autonomy to select a training provider of their choice.

The ESFA approach has required the Operator to pre-procure its training supply chain to ensure due diligence and quality assurance standards are in place. This has been at odds with the principle of employer choice and has increased sub-contracting in the supply chain. There is the opportunity to refresh how this element works to create a balance between pre-procured providers whilst offering a more dynamic system to bring on board new providers based upon specific business need.

### **2.2.5 Co-investment and Differential deals linked to business growth**

Co-investment in training was hard wired into the Skills Bank model as a core principle. A Skills Bank deal is made where there is a credible and demonstrable business growth story and a requirement for training to realise this growth. The extent of the investment made by the Skills Bank is determined by the perceived return to the economy of the investment. In response to the current issues facing businesses, a number of agreed training offers have been made that have been fully funded to support business recovery, but this is an exception to the model.

Linked to the co-investment requirement is the potential to differentiate deals with businesses linked to the social value and public return. As an illustration - Company A and Company B are both seeking a deal to train 5 middle managers. Company A, during the negotiation of the deal, agrees to take on an apprentice and participate in providing work experience linked to a local school – thus achieving local outcomes for businesses engaging with schools and young people. Company B is unwilling or unable to take on apprenticeships and is not interested or able to support work experience. The potential

return on investment of the management training to both businesses is broadly similar however the social value associated with the Company A deal is greater given the wider benefits for young people. The operating model, as originally designed, allowed for a higher contribution to be made to Company A deal than with Company B.

This element of the operating model has been the hardest element to operationalise under the management of the ESFA. There are some recent examples where the current operator has achieved this and the extent to which Social Value is integrated into the new deal making process can be refreshed in this next iteration of the Skills Bank.

### 2.2.6 Three application routes to access a Skills Bank deal

In recognition of the need for the Skills Bank to support businesses of all sizes, not simply those that had the size and internal training capacity to make an application, the operating model provided three routes to accessing a Skills Bank deal:

- A direct single business application,
- An aggregated demand application made on behalf of a group of businesses (usually for very small businesses who do not have the capacity to apply individually) or
- A training provider application where they can evidence, they are working with businesses with shared demand – a minimum threshold of 50% named businesses was required to ensure this route was genuinely demand led and not speculative development without a market for the training activity.

## 3. Consideration of alternative approaches

**3.1 Do Nothing** – In this scenario the Skills Bank would cease to operate. This has been discounted as the original funding model was designed to enable some sustainability in the approach. The evidence supporting the priorities of both the Renewal Action Plan and the Strategic Economic Plan, the economic shock as a result of COVID and the impending issues for businesses following BREXIT provide an overwhelming case to continue to maintain support for businesses and their workforces to secure growth. Please refer to this link for a summary of the SEP evidence <https://sheffieldcityregion.org.uk/wp-content/uploads/2020/11/SEP-Evidence-Base.pdf>

**3.2 Do Something** – The proposed model, outlined in section 2, is a do something option, which is strongly aligned to the original principles and operating model agreed by the LEP. The proposal is that the principles and operating model is reviewed but that the service and model continue principally as designed, given the design was led by the LEP and reviewed at the interim stage. It is also proposed that further design work is undertaken to the policy objectives and outcomes agreed in the SEP and RAP are “locked” into the preferred model along with an evaluation plan.

**3.3 Do More** – The option of doing more via aligning an element of AEB to the Skills Bank was discounted as a viable option by the Education, Skills and Employability Board. The request was for detailed evaluation of benefits leading to a fuller and detailed review. This external evaluation has been commissioned.

## 4. Implications

### 4.1 Financial

The Skills Bank Reserve held 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. A total of £7.69m. Based on the current spend profiles and as this is a finite reserve it is envisaged that this could sustain the Skills Bank for two additional years.

More detailed modelling is required to consider the level of intervention possible and to develop the business case covering the resourcing of the operating model

- Brokerage and Advisor Support
- Skills Bank Operator
- Marketing
- Quality Assurance
- Evaluation
- Co-investment pot
- MCA Executive costs

#### **4.2 Legal**

Subject to agreement of the Operating Model regarding the Skills Bank Operator a procurement exercise would be developed and run.

#### **4.3 Risk Management**

A full and detailed risk management action plan will be developed as part of the business plan development. Some of the initial high-level strategic risk areas that the continuation of the offer seeks to mitigate are:

- Reliance on the national mainstream offer, is insufficiently flexible and fails to provide an offer to businesses to support their growth ambitions;
- The implications of Brexit and COVID, raise demand for business support to support business diversification, resulting in increasing demand for bespoke support for workforce development, which would not be met without the Skills Bank offer;

#### **4.4 Equality, Diversity and Social Inclusion**

The Skills Bank is not designed as an approach to improving social inclusion, in the same way that this features in the devolved AEB programme, however data is monitored and reported upon. The Board are asked to consider in section 2.2.5, whether they wish to focus on differentiating deals where there is greater social value which could support the achievement of these outcomes.

### **5. Communications**

- 5.1** A communication plan will be developed as part of the revised business case. Immediate communication requirements relate to the continuation of the service post March which is currently being explored to seek to ensure that there is no loss of service.

### **6. Appendices/Annexes**

- 6.1** N/A

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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: