PURPOSE OF REPORT

This paper provides an update on progress in relation to the devolution of the Adult Education Budget (AEB) in Greater Manchester, highlighting issues for consideration, areas in which action is required and setting out the timetable for activity. These matters are in preparation for a devolved AEB from 2018/19. This is an update, further to the paper that went to the Greater Manchester Employment & Skills Executive in September 2016.

Following the Brexit referendum vote, restructuring of the machinery of government and an ensuing Cabinet reshuffle were undertaken. This has expanded the Department for Education (DfE) remit to encompass skills, HE and apprenticeships, which transfer from a refocused Department for Business, Energy and Industrial Strategy (formerly the Department for Business, Innovation and Skills).

It should be noted that these changes in Central Government, have led to slippage in the timeline of the Government agencies regarding information about AEB Devolution, whilst proposals to take forward the devolution process (as developed by the Skills Funding Agency) are considered by the new Secretary of State and her ministerial team. However, the work needed locally to ensure effective and efficient devolution of AEB continues to take place on an ongoing basis, as this report highlights.

RECOMMENDATIONS

The Combined Authority is asked to:

1. Consider and note this update and the issues raised;
2. Support key officers in taking forward discussions within Greater Manchester, and with the Skills Funding Agency, around the processes and future resources needed to implement AEB devolution;
3. Support the principle that future funding decisions taken by GMCA for AEB implementation / delivery will be directly linked to achieving the priorities in the
Greater Manchester Outcomes Framework to meet the economic needs of individuals and employers.

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BACKGROUND
In the Chancellor’s Spending Review/Autumn Statement in November 2015 and in further announcements within the Budget in March 2016, it was confirmed that the Adult Education Budget (AEB) would be devolved to the nine LEP/combined authority (CA) areas with devolution deals in place from the 2018/19 academic year onwards.

The AEB is a single funding stream replacing what had previously been three separate budget lines: Adult Further Education (previously the Adult Skills Budget) excluding Apprenticeships but including Traineeships (for those aged 19+), Community Learning, and Discretionary Learner Support. It will play a key role in Greater Manchester’s reform agenda, linking with other activity aimed at supporting our residents into productive and sustained quality employment as part of an integrated education, work, skills and health system.

The Government’s view is that AEB funds a local service to support local labour market conditions and future economic development. In particular, it focuses on ensuring adults have the basic and core skills they need for work including the delivery of statutory and policy entitlements. Current annual expenditure in Greater Manchester on the AEB is approximately £80m, of which more than half of this budget is currently spent on statutory entitlements relating to English and Maths provision, supporting 185,000 achievements of qualifications. In addition, the need to support ESOL, for those who it would improve their job prospects, and the national policy to drive up digital skills, means that in GM, as elsewhere, the potential demand on the AEB far exceeds what can be funded.

To support future integrated skills and employment commissioning in GM against locally driven outcomes, the key partners have been developing the Greater Manchester Outcomes Framework. This will initially guide expenditure and use of AEB, and can be used to guide other skills and employment focused funded activity such as the Work & Health Programme. An overarching requirement for Greater Manchester, as set out in the Outcomes Framework will be to maximise the effectiveness of AEB to improve job outcomes for individuals. GM will need to focus AEB on core outcomes of progression into further learning, sustainable employment and higher earnings in employment. This should include labour
market progression, increased contribution to earnings and productivity as well as progression into Traineeships and Apprenticeships. GM priority sectors will provide a particular focus.

**AEB DEVOLUTION: MOVING TO AN OUTCOMES BASED INTEGRATED WORK & SKILLS SYSTEM**

Greater Manchester’s *Work & Skills Strategy*, and the emerging *Outcomes Framework* will provide the strategic steer for implementing and prioritising the devolved AEB. GM recognises that in the past Adult Skills funding been a ‘catch-all’ for a whole range of provision. Going forward, devolution of the AEB provides an early opportunity to begin to deliver the integrated work and skills system that GM seeks. GM’s ambition is that in the future, effective joint planning and decision-making between partners will ensure that all skills activity delivered will be supporting achievement of the locally developed outcomes. In particular it enables GM to be more flexible with funding to focus more on priority outcomes, rather than outputs and qualifications. Qualifications will continue to remain important, particularly for basic skills to Level 2 to provide a strong learning foundation, however alone they do not provide the wider measure of outcomes needed, and will not be the sole focus of funding.

However, devolution also brings with it increased responsibility and challenge at a local level. Choices will need to be made by the Combined Authority and partners, about what and who to prioritise, particularly, when it is estimated that the AEB could easily be spent many times over on essential statutory and policy entitlements alone. ESOL is an example of how AEB funded provision will need to be prioritised for improving employability.

It is important to note that the AEB accounts for an important but relatively small proportion of skills investment/provision within Greater Manchester, forming in the region of 17% of total skills and learning expenditure for individuals aged 16+. Whilst its devolution and local autonomy offer real opportunities to deliver the outcomes GM needs, expectations around what can be achieved with this funding, particularly in the transitional period must be realistic and the resources required for preparation and implementation of this devolved activity must be proportionate to its impact.

Aligning the AEB with Work & Health Programme funding, JCP provision and ESF will be important to ensure that those individuals disadvantaged in the labour market get the full range of skills and other employability support needed to progress towards employment, and that the AEB can support the economy as much as possible. Devolution therefore provides a real opportunity to use the various funding streams available more smartly in order to have a positive impact in ensuring that adult skills funding meets GM’s outcomes and aligns with other funding sources as appropriate.

Agreements between GMCA and individual providers will be crucial in linking skills provision to shared broader economic aims of an area, as highlighted in the Outcomes Framework.

**Priorities through AEB – Provision & People**
It will be important to ensure AEB is targeted where it can have the greatest impact and identify where other employment and skills budgets, as well as those for health and social care might be better placed to deliver, or alternatively co-finance the support.

In order to have an effective and efficient use of the Adult Education Budget that addresses GM’s outcomes for the benefit of learners, employers and the broader GM economy, statutory and policy requirements need to be delivered as part of a package of integrated support, including English, Maths, ESOL and Digital.

A focus on those hardest to reach would address the reform agenda but would be considerably more expensive, per person, than meeting the needs of those closest to the labour market. Average intervention costs can vary depending on the target group, which clearly has significant implications for the number of residents the AEB will be able to support. GM needs the AEB to be as inclusive as possible to ensure that all can contribute to, and have the opportunity, to benefit from growth in the local economy, but in order to demonstrate value for money for public investment all will need to have a realistic possibility of employment including:

- ‘Furthest from the labour market’
- ‘Those closer to the labour market’
- ‘Those in the labour market and/or seeking to gain higher skills’

Aligned with these priorities, working with employers to address their skills needs must be a crucial element in shaping the Adult Education Budget offer in Greater Manchester.

The devolved AEB will also support the implementation of the Area Based Review recommendations and the outcomes of the subsequent GM-wide curriculum review by giving the Combined Authority the ability to distribute funds more strategically than has been the case in the past. Prior to devolution, this budget has been allocated to providers based on historic delivery volumes; the devolved AEB will allow us to take a place-based approach to buying the high quality provision that our residents need, using robust evidence and the Outcomes Framework to inform the way in which we determine funding allocations, rather than simply maintaining the status quo.

**AEB DEVOLUTION - WHAT WILL BE DIFFERENT IN 2018/19 AND WHAT DO WE NEED TO DO?**

**Policy Development**

**In 2018/19 GM will:**

As a fully devolved authority for Adult Education funding, policy and provision, Greater Manchester will have an increased focus on local responsiveness and flexibility. Funding policy, and the balance and mix of provision will be shaped by the economic needs of residents and employers, rather than being supply-side driven by providers.

GM will have the opportunity to implement its own funding policy, including payment rates, rules and performance management KPIs from 2018/19. This will need to done in a managed way during 2018/19, working very closely with the Skills Funding Agency to have an effective transition from SFA policy to local policy. GM will need to ensure we are maintaining stability whilst driving improvements in performance
management. We will particularly need robust data on GM’s outcomes from providers, to measure the impact of the devolved AEB during 2018/19, in order to support ongoing and evolving local policy development into 2019/20.

To support this development, during 2017/18, ‘shadow budgets’ and ‘Provider Agreements’ will be in place to shape conversations with providers about their future adult skills offer.

**What needs to happen?**

**GM Outcomes Framework:**

- Develop impact measures / KPIs for GM Outcomes Framework
- Consult key stakeholders on framework and publish final version

**GM Funding Policy:**

- Model different GM wide scenarios for allocating the AEB, based on 2017/18 shadow locality budget, outcomes framework and its KPIs;
- GMCA agreement of GM policy approach, based on Outcomes Framework principles and taking account of financial modelling/impact;
- Working alongside the SFA, begin drafting funding policy, including performance management rules, funding rates, eligibility principles, guidance
- Consult on proposed arrangements and publish final version of policy

**Commissioning / Provider Allocations**

**In 2018/19 GM will:**

GM will have autonomy and accountability for local commissioning and procurement processes, working closely with the DfE / SFA. A framework will be established in a Memorandum of Understanding setting out respective responsibilities, accountabilities, risk mitigation and authority. **This will require GM to decide what, how and from whom** to buy the mix, quality and quantity of provision to meet GM’s economic needs.

Local commissioning arrangements could include a mix of grant allocations and directly procured services, enabling GM to focus on targeting gaps in provision to address skills needs.

**What needs to happen?**

**Provider Delivery Agreements and Funding Allocations for 2018/19:**

- Establish GM needs based on Outcomes Framework, Area Based Review, Curriculum mapping, Skills Needs Analysis, Sector Deep Dives, intelligence from other provision e.g. Work & Health Programme;
- Based on needs mapping, and Shadow Locality Budget for 2017/18, begin discussions with providers around the balance and mix of provision for 2018/19;
- Finalise Provider Delivery agreements and confirm funding allocations.
Procurement arrangements for 2018/19:

- Map planned delivery from Provider Agreements against GM needs
- Identify any gaps in provision and propose how to fill gaps e.g. procurement
- Consult on proposals and finalise procurement arrangements

**Performance Management**

*In 2018/19 GM will:*

Develop performance management through locally derived KPI’s, and will be focused on monitoring, evaluation and subsequent ongoing development of the AEB offer. This should seek to ensure that rather than simply measuring programme starts and qualifications, AEB funding leads to outcomes demonstrating:

- Progression
- Achievement
- Sustained job outcomes
- Rise in earnings

To inform future funding priorities and commissioning, we will need a comprehensive evidence base to help maximise the impact of GM funding policy and investment, rather than just measuring delivery volumes and qualifications. The GM Outcomes Framework, and its measures will provide the strategic mechanism to guide this, but it will require the development of localised data collection and analysis, in additional to the national data requirements to ensure we have the ongoing evidence base needed to evolve AEB policy for GM’s skills requirements. GM will determine its minimum quality standards.

**What needs to happen?**

*Develop performance management systems / processes focused on outcomes rather than outputs:*

- Based on Outcomes Framework KPIs, determine management information / data requirements to measure impact, evaluate effectiveness of policy and verify provider funding claims;
- GMCA decision on whether to buy in discretionary elements of the SFA service offer or establish local MI data collection, analysis and audit linked to AEB. The Skills Funding Agency has started to identify potential support they could provide, some of which will be mandatory such as due diligence of providers, and some which is discretionary such as procurement support. For additional data GM want to collect, on in-year provider performance (beyond the current annual Individual Learner Records), GM will need to have in place its own data collection, reporting and analysis processes;
- Determine arrangements for growth requests from providers and clawback for under performance;

**Risks & Readiness Conditions**
In 2018/19 GM will:

Need to be in a position where it has been able to take a decision on accepting AEB Devolution from Central Government.

There are considerable growing pressures on demand for the AEB, such as the emerging digital skills policy, and rightly there is a focus on encouraging people to take up their entitlements to ensure they have the skills they need. This could though have financial implications for GM in that meeting entitlement demand from individuals limits what else can be funded.

Therefore GM will need to have considered an approach to meeting additional demand beyond the AEB funding capacity, and also to have agreed arrangements in place for what this might also mean in terms of cash flow for GM.

What needs to happen?

Work with SFA / DfE to ensure GM has met readiness conditions around managing legal and financial risk;

- Agree a MoU between DfE and GMCA to formalise joint planning and decision-making, including clarity around national and local roles and respective liabilities in relation to risk, audit and assurance;
- Ensure GMCA Treasury and Legal expertise is involved to manage and mitigate risks;
- Fully understand and mitigate potential impacts for GM of the FE insolvency regime, as set out in the Technical & Further Education Bill, particularly following the Area Based Review outcomes;
  - The Bill sets out the plans for Education Administration Orders, intended to perform the function of Administration, but whilst minimising disruption to students. The current version of the Bill refers to only the relevant national authority (including those for Wales and Scotland) having the power to implement such Orders, with no reference to how areas due to have devolved AEB such as GM will be involved / consulted. In addition, further information is required regarding potential liabilities on the GMCA, if providers in Greater Manchester defaulted on repayments to Government linked to guarantees and indemnities.
- Determine GM policy on minimum quality standards, working alongside Ofsted;
- Clarity achieved on local / national powers of intervention, particularly around insolvency issues;
- Post-ABR ensure governance structure is developed and robust;
- Consider if longer-term planning and funding periods for AEB are needed e.g. 3 years;
- Consider what additional local due diligence is required in addition to the SFA responsibilities, e.g. covering responsiveness to GM need
NEXT STEPS & TIMELINE

As has been set out in previously, the AEB devolution process (which will be subject to certain readiness conditions being satisfied) will take place in phases across the next few years.

An approximate timeline for key activities to be undertaken from now includes:

*(Activities in italics are SFA / DfE responsibilities)*

**Jan-March 17:**

- 2017/18 Locality Budgets signed off by SoS
- Skills Funding letters from DfE/SFA confirming budget headlines and priorities
- Continue modelling scenarios for GM use of AEB e.g. potential numbers supported in target groups
- Ongoing involvement in Adult Education Commissioning Academy for devolved areas
- Consult on and finalise GM Outcomes Framework
- Develop and consult on GM Funding Policy
- Agree MoU between GM / DfE around joint planning and decision-making
- Decision on whether to purchase discretionary elements of SFA’s management information service offer
- *SFA issues 2017/18 allocations to providers*

**Apr-June 17:**

- Publish final version of GM Funding Policy in readiness for 2018/19
- Confirm proposed commissioning arrangements for 2018/19
- Devise ‘shadow allocations and provider delivery agreements’ for 2017/18 based on Locality Budget, GM Funding Policy and Outcomes Framework

**Summer 17**

- GMCA to formally decide on accepting AEB Devolution. (May need to be consideration by GMCA sooner, depending on timescales for the first orders).
- Identify gaps in provision
Begin ongoing monitoring of 2017/18 Shadow Budgets and Provider Agreements

Begin discussions with providers around 2018/19 funding and delivery agreements

**Autumn 17 2018/19**

Begin procurement process for any new provision required in 2018/19

**March 18**

Confirm 2018/19 allocations and Provider Delivery Agreements

Issue contracts for procured provision

**Aug 18**

Fully devolved Adult Education Budget for 2018/19 commences

**From Jan 19**

Review / Evaluation of policy and implementation to help inform any changes needed for 2019/20 (following 2017/18 year end data received in Dec 18)

These timelines are based on current expectations for devolution. Confirmation by DfE of the Locality Budget is crucial to GM commencing shadow arrangements for 2017/18.