Date: 30th June 2017
Subject: Update on Devolution of the Adult Education Budget
Report of: Councillor Sean Anstee, Portfolio Lead for Skills, Employment & Apprenticeships

PURPOSE OF REPORT

This paper provides GMCA Leaders an update on progress towards devolution of the Adult Education Budget (AEB) in 2018/19. This is an update, further to the paper that was considered by the Combined Authority in February 2017, when the principles were considered and agreed.

The DfE’s Director General for Further and Higher Education wrote to GMCA on 7 April 2017 setting out plans to continue working at pace with Combined Authorities on preparations for the devolved AEB, with a view to laying orders before Parliament prior to the summer recess in July for the transfer of statutory duties from the Secretary of State to Combined Authorities. However, those plans were superseded by the announcement of the General Election that took place on 8 June. As a result, DfE officers confirmed that the pre-recess timetable will no longer be possible as work dependent on ministerial decision-making could not proceed, as the pre-election period restricted activity between departmental officials and external stakeholders.

It should be noted that, from April 2017, the Skills Funding Agency (SFA), which previously led on funding for 19+ education and training, merged with its Education counterpart to create the Education and Skills Funding Agency (ESFA). It is envisaged that the creation of a single funding agency accountable for funding education and training for children, young people and adults, will lead to a more joined-up system. Where previous papers have referenced future dialogue and joint working with the SFA, such references should now be read as the ESFA.

RECOMMENDATIONS

GMCA Leaders are recommended to:
Consider and note this update
Support officers in taking forward discussions with the ESFA and DfE around resources and processes required for implementation.
CONTACT OFFICERS

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Background

The background has been set out in full within previous papers considered by the Combined Authority. In summary, the AEB is a single budget stream bringing together adult further education (19yrs+, with the exception of apprenticeships), community learning, and discretionary learner support. It is intended to fund provision which supports the local labour market and economic development. In particular, it focuses on ensuring that adults have the basic and core skills that they need for work, including guaranteeing a number of statutory entitlements relating to literacy, numeracy and digital skills.

As such, 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 employment as part of an integrated education, work, skills and health system.

Current annual expenditure in Greater Manchester on the AEB is approximately £70m, more than half of which is currently spent on entitlements relating to English and Maths provision. Whilst funding has reduced significantly in real terms over recent years, the range of statutory entitlements is expanding, following confirmation that digital skills will also be included in the future. The number of Greater Manchester residents potentially in scope for the legal entitlements, together with policy entitlements such as English for Speakers of Other Languages (ESOL) provision, means that in GM, as elsewhere, the potential demand on the AEB far exceeds what can be funded.

As has been set out in previous papers, to support future integrated skills and employment commissioning in GM against locally driven outcomes, key partners have been developing the Greater Manchester Outcomes Framework. An overarching requirement for Greater Manchester will be to maximise the effectiveness of AEB to improve job outcomes for individuals. GM will need to focus its AEB funding policy and spending 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.

Timeline for devolution

Due to the General Election on 8th June, the timeline for devolution of the AEB cannot now proceed as envisaged and the timeline for a fully devolved AEB in 2018/19 is now in doubt.

Ahead of the General Election, work dependent on ministerial decision-making paused and activity between departmental officials and external stakeholders was restricted. The post-referendum review of the machinery of government (MOG) in July 2016 had already caused substantial delays to what was an ambitious devolution timeline. Further ministerial changes relating to skills issues have now taken place following the Election. CA’s were informed before the Election, that it will not now be possible to begin transferring relevant statutory functions (set out at Annex A) from the Secretary of State to each Combined Authority prior to the Parliamentary summer recess, which brings into question the whole timeline for fully devolved budgets in 2018/19.
Confirmation is awaited, as deferring devolution of AEB funding to 2019/20 would be a material change to the devolution agreement which we would expect to warrant formal ministerial notification to GMCA. In any event, GM will continue its preparatory work and continues to make a case for a ‘shadow’ year to test local processes and systems prior to full devolution, whether it comes in 2018/19 or 2019/20. This would mean that our intention for the first devolved year to be a formal transition year is unchanged, and in the event that devolution is deferred to 2019/20 we will work with the ESFA to see how we can influence/jointly plan provision in 2018/19.

**Locality Budgets**

Details of locality budgets, initially anticipated in late Summer/early Autumn 2016, have still not been received due to the MOG delays described above. However, prior to dissolution of Parliament ahead of the election, the Secretary of State indicated that future locality budgets will be calculated based on the amount of AEB currently spent on residents within the Combined Authority. In addition, the element of AEB spent on Traineeships for learners aged 19+ (previously in scope as part of the devolved AEB) will now be retained nationally in order to align with the national apprenticeship strategy.

Should this remain Government policy following the General Election, the ESFA will illustrate how this will apply to the 2018/19 budget when more funding information becomes known nationally.

This approach is a departure away from original proposals to use a new formula which took account of a range of ‘need-based’ factors, including the cost of delivering statutory entitlements to an area’s residents and skills deprivation amongst the local adult population. The option of developing a new funding formula will be kept under review. Whilst calculating allocations based on need may have been a more equitable approach, this shift should not make a significant difference to GM’s locality budget. Whilst national modelling indicated that it would have resulted in gains and losses of up to around £10m for some localities compared to allocations based on providers’ previous delivery volumes/values, we had estimated that GM’s budget would not have differed substantially under the proposed methodology.

In any event, the national method of calculating locality budgets does not impact upon GM’s autonomy to allocate/commission the devolved funding as we see fit. GM has always intended to use an allocation-based methodology for the devolved AEB in 2018/19, with no significant changes to providers’ allocations. This approach was agreed in order allow us to build a comprehensive evidence base which will ensure commissioning decisions are driven by impact on outcomes and quality rather than by supply-side considerations, and is not altered by the national shift in direction. Regardless of the way in which GM’s overall allocation is calculated, the same considerations and principles remain relevant, namely the focus on improving outcomes for GM residents and employers and the need to understand the potential impact of any material changes we might consider to the way in which this budget is used moving forward.

We are continuing to work closely with Central Government, underpinned by a memorandum of understanding to be agreed between GMCA and DfE. Whilst GM will have autonomy over the AEB, we will aim to ensure that this MoU encompasses a
collaborative approach to all post-16 activity, whether devolved or retained, in order to support our vision of a cohesive education, skills and employment landscape for GM.

**Readiness conditions**

Work is continuing in GM, including active engagement with key partners, around the readiness conditions upon which formal consent to the transfer of statutory functions is contingent. In order to provide consent, the Combined Authority and Central Government both need to be satisfied that their respective roles, accountabilities and liabilities are sufficiently clear and workable. We are continuing our dialogue with ESFA/DfE around these matters, including how GM’s concerns relating to the proportionality of risk and liability will be addressed. Internally, we are also working closely with Legal and Finance colleagues in order to understand the impact of these matters and the wider readiness conditions on the CA.

The readiness conditions now include a requirement for a Strategic Skills Plan, setting GM’s approach to the AEB in the wider strategic context (including alignment with the Industrial Strategy Green Paper and the introduction of the Apprenticeship Levy). This is a welcome development which has come about in response GM’s lobbying around the need for joint planning across all post-16 activity, whether devolved or retained, and offers an opportunity to formalise a coherent agreement to that end. This plan will be based upon GM’s Work & Skills Strategy and will inform the development of GM’s AEB funding policy.

Detailed planning is also continuing around the policies and guidance which we will need to have in place alongside the national suite of documentation, including:

- **Funding policy**, built around the outcomes framework and taking account of the legal entitlements, eligibility, quality benchmarks/requirements, qualifications, and funding rates
- **Performance management**, including data requirements, monitoring arrangements and how our local systems will dovetail with the national intervention approach
- **Provider delivery agreements** have been developed for discussion/consultation
- **Internal processes** must be developed for commissioning/procurement, contract management and payment, audit and assurance, and overall programme management, monitoring and evaluation. It is likely that a working group involving GMCA finance and provider representatives will be required to focus on developing payment systems and mechanisms.

In order to ensure that, when AEB is fully devolved, we understand the implications of moving from qualifications to outcomes, we are working with core partners to commission two key projects around modelling and data/performance management:

1. Testing modelling assumptions in order to ensure that provision and investment have the maximum impact on the local economy and for our residents. Outputs from this work will include:
   - developing alternative realistic funding scenarios at GM and Provider level
   - testing the impacts of splitting funding between different priority groups
modelling potential economic outcomes levels for various funding scenarios
evidence of full engagement with local providers.

2. Development of performance management reporting and data monitoring focused on economic outcomes rather than learning starts and achievements. This should seek to ensure that AEB funding leads to outcomes evidencing:
   progression
   achievement
   sustained job outcomes
   increased earnings.

Resources and expertise

Additional expertise and capacity will be required within the CA in light of the specialist technical functions that will be transferred. CAs have been advised to undertake analysis of implementation costs associated with the AEB in 2017/18 and will have the option to submit a business case to DfE, should there be costs that cannot be met through existing resources. The ESFA will not be in a position to offer CAs a range of functions/services on a buy-back basis, as had previously been considered.

Our analysis will, in part, be informed by the projects outlined above which will give a sense of the nature and scope of new functions that can then be mapped against the capacity/expertise available within the existing staffing structure. However, it is likely that additional technical expertise will be required to implement and manage the devolved AEB, and a number of current posts in relevant commissioning, contract management and policy roles are fixed term appointments/secondments which are due to come to an end prior to the implementation of AEB devolution.

No decisions around implementation funding from Central Government have been reported to CA’s yet following the Election.

Recommendations

GMCA are recommended to:
   Consider and note this update
   Support officers in taking forward discussions with the ESFA and DfE around resources and processes required for implementation.
Annex A - Statutory functions

In order to deliver a devolved AEB, both Parliament and the relevant Combined Authorities must consent to the transfer of statutory powers and duties which currently sit with the Secretary of State.

The following sections of the Apprenticeships, Skills, Children and Learning Act (2009) have been identified as relevant through discussion between the DfE and all Combined Authorities to which the AEB will be transferred:

Section 86 – Duty to provide appropriate 19+ Further Education (not to include apprenticeships, prisoner education or traineeships)
Section 87 - Duty to provide appropriate FE to 19+ learners who do not have certain specified qualifications
Section 88 - Duty to ensure that provision is free for relevant 19+ learners who do not have certain specified qualifications
Section 90 - Duty to encourage learner and employer participation in education and training of people aged 19+ (except those in adult detention) (to be exercised concurrently with the Secretary of State)
Section 115 - Duty to have regard to the needs of 19+ learners with Special Education Needs (other than those aged 19-25 with Educational Health Care plans, for whom the SoS remains responsible)
Section 122 - Power to exchange information with providers to enable provision of 19+ FE (to be exercised concurrently with the SoS).
Annex B – Timeline/Milestones
(NB – This is based on the assumption that DfE is still aiming for fully devolved AEB in 2018/19)

**Key Milestones for devolving AEB in GM**

- **May 2017**
  - Develop Strategic Skills Plan with DfE/ESFA
  - Develop/consult on GM funding policy and supporting processes

- **Summer 2017**
  - Commission GM projects:
    1. Impact modelling
    2. Performance/data
  - Locality Budgets signed off by SoS???
  - Publish final GM funding policy and associated documents for 18/19

- **Autumn 2017**
  - Devise shadow allocations and individual provider delivery agreements for 2017/18 based on locality budget and GM funding policy
  - Ongoing monitoring of 2017/18 shadow budgets & provider agreements

- **Dec 17-Feb 18**
  - Begin discussions with providers around 2018/19 funding and delivery agreements

- **March 18**
  - Confirm 2018/19 allocations and provider delivery agreements

- **Summer 2018**
  - Ongoing consideration of readiness conditions with DfE/ESFA

- **From Aug 18**
  - Issue contracts for procured provision

- **From Jan 19**
  - Fully devolved AEB from 2018/19
  - Undertake review/evaluation of policy and implementation with a view to any changes needed for 2019/20 (NB: year end data for 2017/18 confirmed Dec 18)