

## **CABINET MEETING – 19 JUNE 2013**

### **EXECUTIVE SUMMARY SHEET**

**Title of Report:**

Approval of an alternative training delivery model for ITeC and Riverside Training.

**Author(s):**

Report of the Deputy Chief Executive.

**Purpose of Report:**

This report informs Cabinet of the outcome of the review of the Council's training centres, ITeC and Riverside Training, and recommends the establishment of a new delivery model for the centres.

**Description of Decision:**

That Cabinet be recommended to:

- i. note the outcome of the training centres review and agree to the establishment of a new Community Interest Company (Quality Training and Development, or QTD) in order to operate the city's existing training centres ITeC and Riverside Training on the terms set out in this report;
- i. authorise the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services to take all necessary steps to secure the establishment of QTD, including appropriate pension arrangements, in consultation with the Cabinet Secretary.
- ii. recommend that Full Council appoints a Director to the Board of QTD;
- iii. approve the award of a contract between the Council and QTD for the delivery of agreed training services in the city for the Skills Funding Agency (SFA) funding period 1<sup>st</sup> October 2013 to 31<sup>st</sup> July 2014 on terms to be determined by the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services and subject to QTD being accepted onto the SFA's register of approved contractors;
- iv. authorise the completion of a funding agreement with QTD on terms to be determined by the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services.

<b>Is the decision consistent with the Budget/Policy Framework?</b>		Yes
<b>If not, Council approval is required to change the Budget/Policy Framework</b>		
<b>Suggested reason(s) for Decision:</b> Approval of the proposals contained within this report would afford the opportunity to improve the existing training offer in the City, significantly enhancing and improving prospects for successful outcomes for the residents of Sunderland.		
<b>Alternative options to be considered and recommended to be rejected:</b> A range of options in relation to the management of the training service provision has been considered as part of the ongoing review process, including procurement and potential disposal. There is a clear need to ensure the training centres are sustained going forward for the benefit of the City. In addition, the existing SFA annual funding model for training is also a fundamental consideration together with the current lack of wider market interest in this funding opportunity with the SFA. Increased freedom to operate, with greater flexibility, underpins the prospects for QTD going forward and, hence, other options are not considered optimum.		
<b>Impacts analysed:</b> Equality <input type="text" value="Y"/> Privacy <input type="text" value="N/A"/> Sustainability <input type="text" value="N/A"/> Crime and Disorder <input type="text" value="N/A"/>		
<b>Is this a “Key Decision” as defined in the Constitution?</b>  Yes	<b>Scrutiny Committee</b>	
<b>Is it included in the 28 Day Notice of Decisions?</b>  Yes		

**APPROVAL OF AN ALTERNATIVE TRAINING DELIVERY MODEL FOR ITEC AND RIVERSIDE TRAINING**

**REPORT OF THE DEPUTY CHIEF EXECUTIVE**

**1.0 Purpose of the Report**

- 1.1 This report informs Cabinet of the outcome of the review of the Council's training centres, ITeC and Riverside Training, and recommends the establishment of a new delivery model for the centres.

**2.0 Description of Decision (Recommendations)**

- 2.1 Cabinet is requested to:-
- ii. note the outcome of the training centres review and to agree to the establishment of a new Community Interest Company (Quality Training and Development, or QTD) in order to operate the existing training centres ITeC and Riverside Training on the terms set out in this report.
  - iii. authorise the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services to take all necessary steps to secure the establishment of QTD, including appropriate pension arrangements, in consultation with the Cabinet Secretary.
  - iv. recommend that Full Council appoints a Director to the Board of QTD;
  - v. approve the award of a contract between the Council and QTD for the delivery of agreed training services in the city for the Skills Funding Agency (SFA) funding period 1<sup>st</sup> October 2013 to 31<sup>st</sup> July 2014 on terms to be determined by the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services and subject to QTD being accepted onto the SFA's register of approved contractors;
  - vi. authorise the completion of a funding agreement with QTD on terms to be determined by the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services.

**3.0 Background and Rationale**

- 3.1 ITeC and Riverside Training currently deliver a wide training service provision; including Foundation Learning and Apprenticeships for both young people and adults across region. Both centres support the Council's corporate outcomes and themes which are: People (a city with high levels of skills and educational attainment and participation) and Economy (an inclusive city economy – for all ages). This includes the delivery to the more disadvantaged and vulnerable people, including those not in education, employment or training (NEETs) and people with low or no skills.

- 3.2 The training centres under the current in-house arrangements presently deliver apprenticeship training under an annual funding agreement between the Council and the Skills Funding Agency. Under the proposed arrangements, during year 1 (i.e. up to 31<sup>st</sup> July 2014), the Council will sub-contract delivery of this training provision to QTD. As QTD will be a new organisation without previous financial records, the Council will be required to provide a form of guarantee on behalf of QTD to satisfy the due diligence checks of the SFA. However, this will be no more onerous than the Council's obligations to the SFA as the beneficiary of the grant under the current funding agreement. In year 2, it is the intention for QTD to apply for direct contract status with the SFA in substitute for the Council. This arrangement has been discussed with the SFA, who have approved it in principle.
- 3.3 Although the training centres play a significant role in the provision of training to the residents of Sunderland, future alternative operating models could be considered that could enhance and better sustain the operation of the centres. A Service Review completed in 2012 concluded that existing arrangements did not assist the training centres to maximise outputs and seek new commercial opportunities, necessary to deliver the maximum benefit for the city. The decision was taken that the training centres should be given the opportunity to explore alternative service delivery models. After consultation with staff, this included the feasibility of transforming current in-house delivery into a social enterprise model, with an 'asset lock'. This was considered to be the most sustainable service delivery model. Clarification was also received from the Skills Funding Agency and Education Funding Agency relating to eligibility for a new entity of this type to apply directly for funding direct after an initial 10 month period as the Council's sub-contractor.
- 3.4 In March 2013, a Business Case and Business Plan fully exploring the feasibility of an external service delivery model were examined through the review process. The Business Case and Business Plan reflected the potential for QTD to continue delivering the service provision and also the increased opportunities for business improvement arising from new operating freedom. If successful, QTD would be able to:
- Reduce its cost base;
  - Improve efficiency and value for money;
  - Further improve outcomes and benefits for the community;
  - Increase delivery of apprenticeships;
  - Respond more flexibly to local employer and business needs;
  - Provide the training and skills required by the residents of Sunderland and to continue to fulfil the ambitions of the Local Authority's Economic Masterplan;
  - Offer specialist provision to engage the most deprived residents and ensure none are excluded from the opportunity to improve basic and employability skills;
  - Increase the number of residents in Sunderland in employment, education and training.

- 3.5 The Business Plan indicates the establishment of a sustainable business for QTD over the next 3 years. The proposed new arrangements move the training centres from a current trading deficit position of £16,000 at the end of 2012/2013 to a projected surplus from 2013/2014 onwards as a result of the revised operating arrangements. The financial analysis forecasts the following surplus amounts for the first 3 years of trading:

Year	2013-14	2014-15	2015-16
Forecast Trading Surplus	<b>£12,290</b>	<b>£59,715</b>	<b>£89,768</b>

#### **4.0 Current Position and Proposed Next Steps**

- 4.1 Draft versions of the Business Case and Business Plan outlining the feasibility of QTD have been examined during the review process at various points over recent months and detailed versions were most recently presented in March 2013.
- 4.2 A letter detailing the Council's proposal to establish an external social enterprise service delivery model has been issued to the Skills Funding Agency. Approval in principle of these proposals has been received from the SFA to enable the Council to appoint QTD directly as its sub-contractor for the delivery of the training provision during the first funding year. This approval is subject to QTD being accepted onto the SFA's Register of Approved Contractors. Application for inclusion of QTD on the Register can be submitted in June 2013 and, following due diligence checks, confirmation of acceptance would be anticipated for September 2013. Subject to acceptance on the Register, the sub-contract can then be awarded to run for 10 months from 1 October 2013 to 31 July 2014. Thereafter, QTD will be in a position to apply for funding directly to the SFA from the academic year 2014-15 onwards.
- 4.3 In view of the above, it is therefore proposed to progress the establishment of QTD at the earliest opportunity as a Community Interest Company for the delivery of the training services. The target (subject to QTD securing admitted body status for the LGPS and on affordable terms) is for QTD to become operational at the beginning of October 2013. A shell company for QTD has been registered, in order to enable the process for acceptance onto the SFA's Register of Approved Contractors to begin.
- 4.4 The detailed proposals for the creation of QTD are summarised in Section 5 below. These proposals will create and develop a 'platform' for the new alternative delivery vehicle for provision of training services.

#### **5.0 Proposals**

- 5.1 In summary, the proposals for the new delivery vehicle for the training centres involve the following:-

- (a) The establishment of a new Community Interest Company (CIC), following consultation with the existing staff team. This company will be limited by guarantee and its membership will comprise the transferring employees together with any additional stakeholders who subsequently become members. QTD will be a CIC in order to enshrine its social and community objectives and to create an asset lock in respect of any assets that are subsequently acquired by QTD that may only be used for these social/community objectives;
- (b) QTD will be managed by the Board of Directors. It is proposed that the Board of Directors of QTD will total five. This will consist of a representative of the management team, a further member of staff elected by the staff, a Council representative (to be appointed by Full Council) and two further stakeholder appointees.
- (c) The Board will be responsible for the delivery of the agreed business plan for QTD.
- (d) There will be a transfer of the relevant training centre employees to QTD by virtue of the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") when QTD becomes operational (i.e. 1<sup>st</sup> October 2013). Initial consultations with the affected employees and union representatives have commenced and feedback has been positive. In addition, any relevant assets (eg operational contracts that are required for the delivery of training) will be novated from the Council to QTD;
- (e) It is intended that QTD will seek admitted body status in respect of the Local Government Pension Scheme (LGPS) so that the Council staff who will TUPE transfer will be eligible to remain part of the LGPS. In order to ensure this route is affordable, this admission would be for a closed scheme for the transferring employees only and will not be open to new employees recruited by QTD in the future. At this stage the full financial implications for the potential admission of QTD into the LGPS have not yet been determined as the matter is under consideration by Tyne and Wear Pension Fund. However prudent assumptions have been included in the business plan. It is envisaged that appropriate pension arrangements will be confirmed in due course in consultation with the Cabinet Secretary. In the event that the application for admission to the LGPS is unsuccessful and/or the pension costs are unaffordable, a further report would be submitted to Cabinet prior to the proposed transfer date.
- (f) Subject to the foregoing, having received approval from the SFA and provided QTD is accepted onto the SFA's Register of approved contractors, the Council will award a sub-contract to QTD for the delivery of the city's training provision in accordance with the Council's grant from the SFA for the period 1<sup>st</sup> October 2013 to 31<sup>st</sup> July 2014. It is considered appropriate to award this contract direct to QTD in light of the existing annual SFA funding model for the training centres, the proposed 10-month contract period and the current lack of wider market interest in this funding opportunity with the SFA;
- (g) With effect from 1<sup>st</sup> August 2014, QTD would then apply direct to the SFA for funding for subsequent years. The Council's annual funding bid to the SFA would therefore be adjusted accordingly for subsequent years to reflect that part of the training services would be delivered by QTD rather than the Council.

5.2 The financial implications of establishing QTD are envisaged are based on full delivery of the plans outlined in the business and can be summarised as follows:

a. Investment and Resource required.

- i. Estimated one-off start up costs: £53,000. This includes company set-up costs (pensions, legal advisers, etc), ICT enabling works, re-branding, signage and remaining rent payments on the current ITeC building.
- ii. Grant funding of £9,800 has been secured from the Community Right to Challenge fund which will partly off-set the one-off costs noted above.
- iii. Other costs relating to premises dilapidation charges etc will arise in due course, however these would have been a cost to the Council whether or not this alternative delivery model is approved.
- iv. Start up loan / support will be required in the short term and the amount confirmed once all implementation issues, including pension arrangements, are finalised. The amount and the terms of this loan will be determined by the Deputy Chief Executive and the Executive Director of Commercial and Corporate Services and will be in accordance with the state aid de-minimis limit. The loan will be repayable within 3 years.

## **6.0 Reasons for the Decision**

6.1 Approval of the proposals contained within this report would enable:

- ITeC and Riverside Training (as QTD) to continue to play a significant role in the provision of training to the residents of Sunderland and its business community.
- Greatly increase the operating freedom of QTD, significantly enhancing and improving prospects for realising outcomes and business sustainability.
- The proposals will allow QTD to devise innovative solutions to capitalise on potential new commercial training opportunities for the greater benefit of the city's residents.
- The company model allows greater staff input into the direction of the company.
- Support the Authority's corporate outcomes and themes, which are: People (a city with high levels of skills and educational attainment and participation) and Economy (an inclusive city economy – for all ages). This includes the delivery to the Council's intended demographic target (disadvantaged and vulnerable people, including NEETs and people with low or no skills).

## **7.0 Alternative Options**

7.1 A range of options in relation to the management of the training service provision has been considered as part of the ongoing review process, including procurement and potential disposal. There is a clear need to ensure the training centres are sustained

going forward for the benefit of the City. In addition, the existing annual SFA funding model for training is also a fundamental consideration together with the current lack of wider market interest in this funding opportunity with the SFA. Increased freedom to operate, with greater flexibility, underpins the prospects for QTD going forward and, hence, other options are not considered optimum.

## **8.0 Impact Analysis**

- 8.1 An Equality Analysis has been undertaken in respect of the proposed QTD model which has identified positive impacts will be created for service users as a result of adopting this alternative service delivery model.

## **9.0 Other Relevant Considerations / Consultations**

### **People and Economy**

The proposals seek to continue to support and improve delivery of the Economic Masterplan, under the themes of People (a city with high levels of skills and educational attainment and participation) and Economy (an inclusive city economy – for all ages).

### **Disadvantaged and Vulnerable People**

The proposal also seeks to continue and sustain delivery to the Council's intended demographic target of disadvantaged and vulnerable people, including those Not in Education, Employment or Training (NEET) and people with low or no skills.

### **Employee Implications**

Based on a series of discussions and consideration of the Council's business operating model, existing employees have been identified and will be transferred under TUPE at the earliest opportunity upon establishment of QTD.

## **10.0 Appendices**

Business Plan

## **11.0 Background Papers**

Equality Impact Analysis