

## **Performance management approach for Employer Responsive provision in 2010/11**

### **Guidance for the sector**

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#### **Background**

1. The Skills Funding Agency intends to introduce a semi-automated approach to the management of performance against contract in 2010/11. There are several reasons for this:
  - the freedoms and flexibilities announced by John Hayes in June 2010 have given added impetus to the work already under way to simplify systems and adopt a lighter touch approach
  - managing programme performance within tight financial limits continues to be important
  - we expect that automation will support our efforts to achieve greater consistency of approach across the country as a whole.

#### **Scope**

2. The approach set out in this paper will apply to all the Employer Responsive programmes delivered by training organisations during 2010/11. The arrangements will also apply to 16-18 Apprenticeship provision delivered by colleges.
3. Large employers managed by the National Employer Service will not be subject to automated reconciliation processes as account management currently operates on a slightly different basis for these employers. However, the Single Account Management System (SAMS) will be used to identify where underperformance needs to be tackled in the same way.
4. Guidance Notes 4 and 5 provide more information on performance management arrangements for colleges on their post-19 single budget.

#### **Performance review timetable**

5. The management of provider performance is a continuous process, involving regular dialogue and sharing of intelligence between relevant colleagues throughout the organisation. If necessary, intervention to reduce or increase contracts may occur at any time during the contract year although we expect these to be by exception (e.g. because a provider requests a decrease, or because of concerns about performance).

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6. However, in order to provide a strong degree of predictability and consistency for providers, it is intended that formal performance review and intervention will take place primarily on a quarterly basis (although performance data will continue to be provided via SAMS on a monthly basis). We recognise the need to complete this formal review process and confirm any resulting changes to providers as quickly as possible.

## **Performance management process**

### *Summary of process for removing underperformance*

7. In summary, the process for removing underperformance involves the following sequence of steps:
  - a. Standard monthly and quarterly reports on provider performance against profile, produced by the contract management function in SAMS (i.e. Centralised Contract Management (CCM)), will be made available and a standard monthly profile will be applied to every provider's Maximum Contract Value (MCV) (as described in Guidance Note 5). A set of agreed tolerances are applied to quarterly performance.
  - b. SAMS calculates the proposed adjustments to each provider's MCV and retrospective profile, based on standard rules, in cases where under-performance exceeds the tolerances and the de minimus limit.
  - c. Account Managers review the reports produced by SAMS. Within the window for considering contract adjustments, Account Management teams will discuss issues with underperforming providers and take the necessary actions. Our expectation is that, in the majority of cases, the automatically calculated adjustments will apply.
  - d. In cases where the Account Manager believes the adjustment should be amended, or waived entirely, they will reject the proposed changes via CCM and enter a revised adjustment into CCM.
  - e. The Account Manager will also consider whether there needs to be any adjustment to future profiles too. Senior Account Directors will review recommendations from Account Managers, and will make a decision with a process that will be moderated nationally.
  - f. Authorised adjustments will go via SAMS to the CCM system, and Contracts Teams will issue contract variations

### *Summary of process for reallocating funds*

8. The recovery of underperformance will free up funding for re-distribution to other providers. The Agency will redistribute funds clawed back from under-performance in-year, where there is clear evidence of demand for Apprenticeships that cannot be delivered within existing Maximum Contract Values. Funds will only be reallocated where:

- there is real demand (i.e. employers and learners are ready to start)
  - the college or training organisation needs to be delivering high-quality provision and have no Minimum Level of Performance (MLP) issues
  - the college or training organisation will also need to be above the minimum contract level when this announced following the funding consultation (or in one of the exempt categories, if relevant)
9. The process for reallocating funding will NOT be automated, because there is no appropriate formulaic way of doing this (but the increased allocations will be recorded in SAMS, to provide control of the budget and to make information easily accessible throughout the organisation).
  10. The National Apprenticeship Service (NAS), Finance and Skills Teams will gather regional intelligence on demand. At each quarterly intervention point, Senior Account Directors will put forward a business case that sets out which providers require additional funds for Apprenticeship delivery. In addition, NAS will also identify any new demand flagged through their employer engagement and sales activity.
  11. These cases will be reviewed in light of the available funds for redistribution and agreed by a national panel, chaired by the Agency's Director of Provider Services and including Finance, NAS, and Skills. Following this, all contract adjustments will be made accordingly.

#### *Standard performance profile*

13. Colleges and training organisations are no longer required to produce a Summary Statement of Activity. As these were used to derive individual provider profiles, the Agency has instead created standard performance profiles for 16-18 and post-19 Employer Responsive provision, based on historic patterns of delivery. These profiles reflect the need for the Agency to manage financial and academic year budgets. (As some providers have since received an additional allocation for Apprenticeship funding, these profiles have been amended to reflect this.)
14. Training organisations will continue to be paid on actual reported delivery for the entirety of their Employer Responsive provision. Colleges will be paid on actuals for the 16-18 Apprenticeship element of their Employer Responsive provision and on profile for the remainder (subject to overall single line budget reconciliation as outlined in the previous Guidance Notes).
15. Performance on these elements of provision will be reviewed against the standard performance profile, which was included in Guidance Note 5. This will serve as the baseline for 2010/11 and will be used for every training organisation.
16. Performance profiles will be adjusted if changes to the MCV are made as a result of under-performance or if any additional money is allocated in-year.

#### *Train to Gain cap*

17. No training organisation may deliver more Train to Gain than their nominal cash allocation; this constitutes a breach of contract. Training organisations are therefore capped on their Train to Gain line at the 8 month and 4 month periods.

*Performance tolerances and adjustments to MCV and profile*

18. The table below sets out the tolerances for each quarter and the intervention actions to be taken as a result of their application:
19. The approach set out is intended to give some consistency and predictability to the performance management process, but it is not intended to be rigid, and there will be circumstances where the Agency might want the tolerances and/or the adjustment to be lower or higher.

*Summary of tolerances and proposed adjustments to MCV and profile*

Quarter	Quarter 1	Quarter 2	Quarter 3
Month	November 2010	February 2011	May 2011
Data used	Year to date		
Tolerance % of cumulative profile to date	20%	10%	5%
Default de minimus limit for MCV adjustments	£10,000	£10,000	£10,000
Action to adjust for underperformance to date	Remove under-performance to date in excess of tolerance (unless it is below the de minimus limit) and recalculate MCV) <b>These adjustments will be automatic, and will be applied unless the Account Manager overrides them and they are approved by the relevant Senior Account Director. The assumption is that they will only be overridden in very rare circumstances.</b>		
Action on MCV and future profile – <i>examples only</i>	Reduce remaining MCV by 50% of the reduction applied for performance to date	Reduce remaining MCV by 75% of the reduction applied for performance to date	Reduce remaining MCV by 100% of the reduction applied for performance to date
	<b>At this stage, adjustments to future profiles will be discretionary rather than automatic, and will be determined by Account Managers and signed off by Senior Account Directors.</b>		

20. The tolerances will apply to all post-19 Employer Responsive provision and to 16-18 Apprenticeships, although that funding line will be considered separately. This means that colleges and training organisations have the flexibility to manage individual programme lines to reduce the risk that they will under-perform. Adjustments to maximum contract values will be applied against the programmes that cause the under performance. However, note that no training organisation may exceed their 8 month or 4 month maximum contract value on Train to Gain.

21. In all cases, the Agency will manage to data that is on the system at the time of the review. The purpose of the tolerances is to allow for data lag and accruals.
22. The tolerance at Quarter 1 is intentionally generous to allow for the impact of applying standard performance profiles and to support the switch from Train to Gain to Apprenticeship delivery. At Quarter 2 and 3, the Agency will apply a tolerance of 10% and 5%, respectively, to progressively reduce the amount of unused funds held in contracts.
23. In order to avoid a situation where the Agency is adjusting a high volume of contracts to release small amounts of funding, a de minimus limit will apply (£10,000). This means that in the majority of cases, the Agency will not adjust contracts where the difference between actual performance and the performance profile is less than this limit after allowing for the tolerance.
24. However, there may be circumstances in which it will be appropriate to adjust contracts regardless of the tolerance or de minimis limit, including:
  - Where a training organisation is on a run-down contract;
  - Where a training organisation has been identified nationally as a significant cause for concern because of the extent of their underperformance

#### *High-risk providers*

25. Through this process, the central Allocations Team, working with Finance and NAS, will identify those underperforming training organisations that are causing the most concern or that need to be monitored closely (e.g. those on run down contracts). Account Teams will monitor these training organisations closely.
26. The Agency reserves the right to decide that review and intervention may need to take place on a monthly basis or when a college or training organisation may be within tolerance but where their underperformance is significant enough to warrant action.