

Skills Minimum Contract Levels: threat or opportunity for the market?

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The Change

Unprecedented change is being forced on our marketplace by the need for government to reduce public expenditure and, as you know, the Skills Funding Agency (SFA) will shortly confirm that it will no longer place contracts of under £500k with providers, instead expecting them to provide their delivery through a larger organisation, enabling the SFA to directly manage far less organisations.

The options for providers who fit into this sub-£500k bracket have been proposed by the SFA, and we have a very short time in which to make these new arrangements so that providers can continue to deliver their services.

The options proposed are:

1. Create a consortium of providers that collectively exceeds the limit
2. Sub-contract from a “managing agent”
3. Sub-contract from a larger organisation

All three options have a mixture of advantages and disadvantages. It is also expected that the minimum contract level (MCL) will increase in future years, with a desire from the SFA to contract at £2m and above and ideally with far fewer organisations that equates to working ideally with organisations of over £5m.

Which route is best for your organisation will depend on a range of factors. What is certain though is that time is against us all; however, currently, you have the potential and chance to exploit your current market position and contract value for the benefit of your business.

Consortium

The consortium route is bound to look attractive to some providers because it is seen as the least threatening to identity and survival. It is also the most time hungry and complex route, not least because of the need for contractual agreement between the parties involved and the need for the new legal entity to be accepted by ACTOR. How such a consortium can then develop in the future is an interesting consideration because by its very nature its governance will have to be either very clear or very trusting. Who will run such a new consortium and their experience and capacity to manage an organisation that grows, say five or ten times larger overnight, must be a serious consideration. It will also have to have a clear strategy how it can develop ongoing critical mass to remain above future MCLs.

Subcontracting and Managing Agents

Subcontracting to a managing agent will be seen by some as a potentially light touch umbrella by which they can continue trading, but conversely it is difficult to see how the management fee can do much but remove profit from the provider with little if no potential to add anything in return.

Going beyond the managing agent approach and subcontracting to a large existing provider, however, could potentially add significant benefits to the subcontracting organisation and, by working with the right partner, will provide an opportunity to grow the subcontracting organisation's revenue, resilience and quality.

The New Alternative

As the Chief Executive of JHP Group Ltd, the second largest vocational training provider in the country (according to the latest SFA statistics) with a substantial and growing employability business, I naturally have a particular perspective on this enforced, significant market development.

I believe it is important to recognise the wider agenda. That supply chain arrangements are being adopted across many new areas of the public sector as the preferred working arrangement; and that this is against the wider economic landscape where the government and public are demanding higher quality with more personalisation at lower cost. Increasingly sustained employment will be the measure of success that really matters.

This inevitably means that our market has to rise to the challenge of those demands or face the consequences. We have to find ways to maintain and raise specialities and diversity, raise quality, increase geographic coverage and add real value for money. We believe that the prime contractor/subcontractor model is the most effective structure to meet these demands because of the advantages that can be derived through working with genuine partners.

At JHP Group we already operate a healthy supply chain of subcontractors in our employability activities and indeed we are happy to act as a successful subcontractor to other partners. **We inherently believe in the effectiveness of a long term and healthy supply chain.**

It is my contention that this particular approach brings with it significant opportunity for the market - for both large and small providers - and indeed for UK plc as it seeks to secure better value for money where budgets are over-stretched in these difficult economic times - and yet where the skills deficit is a significant challenge to the UK economy.

For example, in the Department for Work and Pensions' Work Programme, we are likely to see the award of about 30 substantial contracts across the country to as few as possibly 20 prime contractors. However, at the recent Welfare to Work Conference, over 1,000 organisations attended. These are all active participants in the delivery of the welfare to work agenda's employability programmes, whether as a prime contractor or a subcontractor. Some prime contractors are also subcontractors to other primes in different contract areas (including JHP Group). Many organisations choose specifically to act as a subcontractor and not a prime contractor, having identified this as a better fit for their organisation.

There is a demand and a need for large, medium sized and small organisations with differing specialism and strengths from across both the private and third sectors to deliver the skills required by employers and individuals. The market is maturing and we are seeing an increase in efficiencies across the provider base as well as in improved job outcomes and sustainability of employment, although these remain key challenges nationally. *Why should Skills be any different?*

In the simplest of terms, **I am confident that it should be possible to deliver higher quality services to more learners and employers at lower unit costs to address the skills deficit and benefit UK plc.**

Each organisation will assess their position and the options available. However, some may opt to oppose the initiative. Whilst I have empathy with those who see this change process as a threat to their survival, it also seems to me that energy devoted to denial or opposition is likely to waste the short amount of time available to be counterproductive to the interests of any party. **I believe that there are good reasons to embrace these changes and that it is in our interests to do so.**

Some providers will choose to work with other similar size providers and in that case a consortium of providers may be right for you. Clearly in such a situation you need to satisfy yourself that the special purpose vehicle or new company can be formed in the time available and that it can be registered under ACTOR as required by the SFA.

If your objective is simply to endure the lowest possible 'top slicing' of the contract value then perhaps a managing agent is the right option. Typically, a managing agent will not offer any services beyond simply that of contracting and procurement:

How will they be able to support you in business development and sales?

What new market opportunities might they open up for you?

How will they help you to streamline your operations to live within the new economic structures that will prevail?

Where will your economies of scale or other general economies come from?

How committed are they to the market?

Will they have the knowledge and expertise that you might need to survive and thrive in a rapidly changing world?

Do they have an influential voice in the market?

What will their view be of the contract risk and how will they manage this regime?

Do they understand the audit and contracting regimes that apply in government funded skills?

You may be able to navigate the questions I pose above and answer them positively and then indeed either the consortium or managing agent may be the right or preferred course of action for you.

For those that wish to consider aligning their futures with JHP Group, we believe we can bring options for your business which may not currently exist in a small provider context. JHP Group wants to develop and maintain a healthy, vibrant and sustainable subcontract supply chain based on the following principals.

JHP's Approach: Choice

- I. A **flexible approach** to the business model and your decision from day 1 can change as your needs or viewpoint changes. There need not be a “one size fits all” approach. Broadly, the following options are available:
 - a. Managing agent type of alignment with minimal top slicing for minimal input – but with a partner that understands the skills market and who can easily upgrade the service extended to you on an “a la carte” type basis
 - b. Within the family of partners there should be an opportunity to enjoy a consortium type environment with clusters of providers in similar sectors – all within the overarching large provider “family”
 - c. A subcontractor role whereby the subcontractor can choose the level of services that might be required – and this can change as times and circumstances change
- II. Whilst the focus may be on the ‘top slice’ that a small provider may have to sacrifice, another way of viewing this is that it may **open up the opportunity** to:
 - a. Secure new funds from other sources via ESF or other bidding opportunities
 - b. Enter new markets in partnership with the prime contractor e.g. Welfare to Work market where skills is an important new area and potential source of revenues, as training takes on renewed emphasis as part of the need to sustain employment
 - c. Deliver short courses, NVQs or other commercial offerings via your own resources but to employers that the prime contractor has a contractual relationship with and via the virtual infrastructure of a larger provider – *a virtual delivery vehicle*
- III. **Improve your own sales performance** of, for example, 16-18 learners by an all embracing employer engagement model. Enjoy access to JHP Group’s field sales teams in both skills and employability; benefit from the call centres that larger providers have to target specific geographical areas and particular offerings and give named leads in named employers to subcontractors; enjoy the benefits of a contractual framework with large employers and SMEs.
- IV. Access a modern **virtual academy** delivery vehicle for the important service of continuing professional development (CPD) and professional qualifications such as PTLLs, CTLLs and DTLLs. A less disruptive approach to releasing staff to colleges for face to face tuition and an approach that has the approval of, and has won plaudits from, LLUK, Information Authority, awarding bodies, and – just as importantly – from staff members.
- V. Enjoy the benefits of an extensive Human Resources & Talent resource for recruitment, staff and personal development and a range of HR services whose services and levels of excellence are recognised by our **Investors in People Gold** and Investors in People Champion status – the only national provider to be awarded these accolades.

- VI. Benefit from the very latest *technology* and *ICT infrastructure* to assist or manage on your behalf your data returns and management information. You may wish to benefit from using e-enrolment and e-portfolio type systems which can transform effective delivery and is a standard for many large providers – large employers now expect this approach as standard.
- VII. Access technical input in areas such as internal *audit, self assessment* and internal verifier models.

I also offer other thoughts that a larger provider may harbour and which may not be immediately obvious or anticipated:

1. JHP Group's intention is to broaden its offerings and be synonymous with high quality in the eyes of employers, learners and the SFA. This will drive behaviour and where small providers offer high quality then there is no reason to believe that your contract volumes will decrease. Quite the reverse is to be expected.
2. JHP Group will see this initiative as being an opportunity to address pockets of underperformance or problem areas. Certainly, there is potential for JHP Group to allocate some of our direct contract on this basis, but we will do so selectively.
3. The better quality providers can expect their volumes to increase where they have an appetite for this – poor quality providers can expect support to improve their quality of offer and success rates but ultimately may lose volumes.

This is no different to how the SFA operates, although larger prime contractors will be in a position to offer additional services and be more proactive than a funding agency – it's not their job, it would be ours.

4. JHP Group intends to have strong direct delivery but also a strong subcontracting delivery arm. It is simply not true that we would want to deliver everything directly. Why would we when we are able to demonstrate that through good management of a supply chain, all organisations in the partnership can benefit from a proven successful and flexible business model? Working successfully as a prime contractor and as a subcontractor, JHP Group is itself testament to this.

Identity and Ownership Structure

Most small providers will want to retain their own identity and ownership structure and this should not be in peril as a result of the MCL initiative. After all, there are hundreds of organisations in the Welfare to Work market who thrive under such arrangements. JHP Group believes in supporting our partners' needs and ambitions and our primary objective is to create a self sustaining win/win situation so that what matters to you, matters to us.

The Future

No-one can know what the future has in store. However, the direction of travel is clear. Funds will continue to be in short supply, which will result in continued margin eroding measures such as tariff reductions and policy changes, to reflect changing government priorities as the economy adjusts and develops. Economies of scale, higher quality, improved success rates, focus on NEETs and the unemployed (or recently employed), shorter delivery timescales, more effective use of technology, better skilled and qualified staff and commercial revenues are all essential elements in ensuring survival. Consolidation in the market in one form or another is inevitable and will gather pace.

I would argue that a strategic approach to these challenges is essential. I would suggest that any provider with a contract allocation of less than £10m should be contemplating how it joins forces with other market players to rise to these challenges.

Why wait for the SFA or government to move the MCL rate upwards when the direction of travel is clear? Grabbing the future and embracing it in a strategic manner is an alternative and rather more positive strategy than “wait and see” or “denial”.

I believe that this change is a small step towards a much more significant realignment that is both essential and, will prove to be, beneficial to the market, employers, learners and UK plc. I would urge the supply side of the market to rise to the challenge and show the SFA that we can deliver and in the process see an ever more professional training provider base able to operate across the work based learning landscape, across the Welfare to Work market and, indeed, in class room delivery in college type settings. To be tentative or timid now is to miss an opportunity and to simply stave off a process that will gather momentum and be threatening to those of a negative disposition who are unprepared. *Partner with JHP and define the future you want.*

Jim Chambers, Chief Executive Officer
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