

Argyll and Bute Employability - Business Model for Sustainability

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this paper is to provide the Environment, Development and Infrastructure Committee with an update on a business model for the sustainability of Argyll and Bute Council's Employability Team. The Argyll and Bute Employability Service, unlike other local authority Employability Services, is not core funded and successfully delivers employability activity through financially challenging commercial contracts.
- 1.2 The Employability Team currently delivers on three major Welfare to Work contracts accessed by all ages, on behalf of two Prime Contractors. These are the **Work Programme (WP)**, (for long term unemployed) on behalf of Working Links, **Mandatory Work Activity (MWA)** and **Community Work Placement (CWP)**, (for those who have not obtained work through the WP), on behalf of Learndirect. These contracts are mandatory and designed to enable the long term unemployed to return to work.
- 1.3 The current financial model associated with these contracts is becoming increasingly untenable. The main body of this paper outlines the current financial status of the Employability Team, noting an immediate short term requirement to generate additional income for the service, coupled with significant cost savings, estimated to be of at least £100,000.
- 1.4 Members are asked to note:
- The content of this report in terms of the financial model and the steps being taken to reduce costs and increase income.
 - A further report will be prepared to take to a full Council meeting with respect to the proposed extension of the Work Programme contract for another year, into 2016/17 and what this will mean with regards to income and costs for the Employability Team.

Argyll and Bute Employability - Business Model for Sustainability

2.0 INTRODUCTION

- 2.1 The purpose of this paper is to provide an update on a business model for the sustainability of Argyll and Bute Council's Employability Team. The Argyll and Bute Employability Service, unlike other local authority Employability Services, is **not** core funded and successfully delivers employability activity through financially challenging commercial contracts.
- 2.2 The Employability Team currently delivers on three major Welfare to Work contracts on behalf of two Prime Contractors. These are the Work Programme (WP) on behalf of Working Links, Mandatory Work Activity (MWA) and Community Work Placement (CWP) on behalf of Learndirect. These contracts are mandatory and designed to enable the long term unemployed to return to work. It is important to note that the Team is responsible for the funding of travel, personal protective equipment (PPE) and training costs for customers attached to the three contracts.
- 2.3 This has a cumulative effect on income, considering the amount of training required by some of our harder to help customers and added to this the distances that some customers may have to travel within Argyll and Bute to reach the nearest main town. Furthermore the Team also deliver directly in Inverness, Invergordon, Dingwall, Alexandria, Clydebank and Dumbarton which adds to travel and training costs.
- 2.4 The three Welfare to Work contracts are delivered across the following geographical areas as follows:
- **WP:** Employability Team and associated partners deliver the WP across Argyll and Bute, Dumbarton, all of the Highlands, including Inverness city and the Western Isles;
 - **CWP:** is delivered directly by the Employability Team across Argyll and Bute, West Dunbartonshire, Inverness-shire and Ross and Cromarty; and
 - **MWA:** is delivered by the Employability Team across Argyll and Bute, Inverness-shire and Ross and Cromarty and through partner organisations based in Fort William, Skye, the Western Isles, Moray, Aberdeen and Aberdeenshire.
- 2.5 Over the last 12 months the unemployment rate for those claiming benefit over six months across the whole of Argyll and Bute has fallen by 0.3% points; this mirrors

the 0.4% point decline for Scotland. This has resulted in a drop of approximately **30%** of referrals to mandatory contracts from the initial indicative contractual volumes and subsequently the referrals received by the Employability Team from prime contractors. Recent National Work Programme Statistics (**Appendix 1**), corroborate our local knowledge in showing that a greater proportion of those being referred to the WP are Employment Support Allowance (ESA) customers, most of whom have additional barriers and are more difficult to place with an employer.

- 2.6 The WP is the Employability Team's most substantive contract. The Employability Team has up to two years in which to place all WP customers into employment. The team receives no payment for this until the customer has been in work for **13 or 26 weeks** dependent on their payment group. If the customer loses his/her job before the allotted timescale the Employability Team and associated partners receive no payment whatsoever. It is therefore essential that the right person is placed with the right employer. There is the ability to reclaim a payment if the person who has fallen out of work can be placed with another employer to complete their 13 or 26 weeks, provided it is prior to their WP end date.
- 2.7 It is important to note that the Employability Team's WP performance for the rolling year compares favourably¹ with the other WP providers sub-contracted by Working Links, many of whom deliver in central locations with excellent public transport. However, the reduced volumes, remoteness of our client base and the limited number of jobs available in these rural areas, added to the impact of the current funding model, are directly impinging on the income stream realised from WP activity and delivery.
- 2.8 With regard to our other substantive contracts, CWP and MWA, the Team are currently performing to 100% of service requirements and are showing a recent (although not significant) uptake in referrals.

3.0 RECOMMENDATIONS

3.1 Members are asked to note:

- The content of this report in terms of the financial model and the steps being taken to reduce costs and increase income.
- A further report will be prepared to take to a full Council meeting with respect to the proposed extension of the Work Programme contract for another year, into 2016/17 and what this will mean with regards to income and costs for the Employability Team.

4.0 DETAILS

4.1 The Council's Employability Team has successfully delivered Welfare to Work contracts since 1999; using a variety of models the Team has placed **at least 2,453** people into work across Argyll and Bute, Inverness-shire and Ross and Cromarty. Therefore the Team has a wealth of experienced staff to assist unemployed individuals back into work or further down the employability pipeline to become more 'work ready' through tailored interventions.

¹ Due to commercial sensitivities the actual figures for the Argyll and Bute Employability Team and other delivery agents have not been disclosed in this paper.

- 4.2 Furthermore, as reported in the 'Local Government Benchmarking Framework' March 2014, Argyll and Bute Council was ranked first nationally under the indicator: *% unemployed people assisted into work from Council operated / funded Employability Programmes.*
- 4.3 Through the Argyll and Bute Employability Partnership, the Council's Employability Team has been instrumental in the delivery of the **£321,880** Employer Recruitment Incentive (ERI) grant funding which has been secured for Argyll and Bute from the Scottish Government's Youth Employment Scotland Fund (YESF) in order to offer employers across Argyll and Bute a recruitment incentive to help unemployed 16-29 year olds back into work.
- 4.4 A target of 100 jobs created on or before 31st December 2014 was achieved resulting in the receipt of an additional **£16,900** of grant support to fund a further five jobs on or before 31st May 2015 – also achieved.
- 4.5 Rigorous financial monitoring over the last four years has identified lower than expected WP income based on the initial scenario of a 27% sustained outcome job rate being achieved year on year, along with associated sustainment payments (payments made if customer stays in work beyond 6 months). Currently, our referral to job outcome rate is 23.1%; this is a reflection of lower than expected performance due to fewer customer numbers, geographical and transport challenges, compounded by a greater number of harder to help customers. This has resulted in contract payments being insufficient to meet expenditure. This deficit has been supported by a surplus that was generated under the New Deal programme. This surplus has now been depleted.
- 4.6 During 2013/14 the CWP contract bid was successful with a total maximum indicative contract value of **£724,157**. In regular discussions with Strategic Finance at that time (who also developed a detailed financial model for the Team), it was anticipated that the CWP contract would negate any loss that has been incurred through delivery of the WP. However, falling rates of unemployment, which resulted in low referral numbers, have significantly impacted on the income generated during the first full year (2014/15) of this contract.
- 4.7 With regard to MWA no income projections were required as a fixed number of referrals are provided year on year, which have been delivered.
- 4.8 In addition, during 2014/15, it was decided not to replace five full-time posts after staff left the service to go into alternative employment. This resulted in a saving of circa **£101,000**.
- 4.9 **Table 1** below presents the **pro rata cost savings** to be realised for 2015/16. Approximately 40% of expenditure is payments to third parties, 50% relates to staff costs. As a result the only significant opportunities for cost reductions are through reductions in non-essential staff.

Table 1: Cost Savings 2015/16 (pro rata, per annum)*	
	2015/16 (per annum)
Total staff savings	£53,349
Other cost savings	
Removal of all water coolers	£1,080
Greater use of Lync in order to limit travel	£900
Closure of premises in Campbeltown and Dunoon	£31,000
Total other cost savings	£32,980
Overall cost savings	£86,329

Potential Additional Income, 2015/16

4.10 The Employability Team is constantly seeking funding opportunities in order to create a sustainable business model going forward. **Table 2** below represents the **additional projected pro rata income** for the Team for 2015/16.

Table 2: Projected Additional Income for 2015/16 (pro rata)*	
	2015/16
Supporting Life Decisions towards Employability *	£32,500
Intensive Job Search (for 2016/17 onwards – value unknown)	£0
Driving Licence Theory Test (for 2016/17 onwards – negotiating)	£0
Flexible Support Fund*	£30,380
Youth Employment Fund	Unknown
European Social Fund – Enhanced Employability Pipeline Strategic Intervention*	£28,582.50
Anticipated Potential Total	£91,462.50

*Key assumptions with regard to **Table 2**:

- Subject to being invited to undertake a stage 2 application, it is anticipated that the Lottery funded ‘Supporting Life Decisions towards Employability’ contract will commence in January 2016 for three years, with a **value of £220,089** per annum. Although not worked up yet, it is anticipated that the **potential income** for the Employability Team will be approximately **£136,000** per annum. Therefore, for the last quarter of 2015/16 this will amount to an income of **£32,500**.
- The potential ‘Flexible Support Fund’ contract with a value of £41,230 is for the delivery of courses starting in July 2015 through to March 2016 and is awaiting approval by Job Centre Plus, it is now anticipated that the courses will start post August 2015. Thus, pro rata income for 2015/16 will amount to **£30,380** (£41,230 less £10,850 for the postponed July and August courses, which will move into 2016/17).
- Confirmation of award of the ‘European Social Fund – Enhanced Employability Pipeline Strategic Intervention’ has not been advised by the Scottish Government. However, being optimistic, it is anticipated that this will commence at the beginning of October 2015. **Therefore, only 50% of £57,165 could be accrued by the Employability Team during 2015/16, i.e. £28,582.50.**

Potential WP Contract Extension

- 4.11 The Department for Work and Pensions has offered a one year extension to WP contract holders. The current contract ends in March 2016, but the Team is required to service the needs of all customers referred up to and inclusive of 31st March 2016 and for a further two years. If we accept the contract variation this will extend our contractual obligations to March 2017 plus a further two years. The one year contractual extension has been signed by Working Links as the prime contractor and in turn Working Links has passed a contract variation to the Council's Development and Infrastructure Executive Director for signing.
- 4.12 However, the contract variation has not yet been signed by Argyll and Bute Council. Further to a review of the contract by the Council's Legal Manager, the Economic Development Manager, accompanied by senior officers in the Employability Team, has requested a meeting with Working Links to discuss some initial concerns with regard to the detailed content within the revised contract.
- 4.13 A detailed report on the financial implications for the Argyll and Bute Employability Team of entering the proposed extension of the WP contract will be prepared and presented to a meeting of the full Council; given that the full Council approved the initial WP contract on 2nd June 2011.

Summary

- 4.14 The current deficit forecast (including overall cost savings of £86,329) and potential additional income for 2015/16 is presented in **Table 3** below, which leaves a predicted in-year balance of -£37,539.50. The Team can only be financially sustainable by continuing to successfully secure future contractual activity or agreeing further cost savings with Working Links.

Table 3: Deficit Forecast and Potential Additional Income, 2015/16.	
	2015/16
Current deficit forecast (including overall cost savings of £86,329)	-£129,002
Potential additional income	£91,462.50
Balance	-£37,539.50

5.0 CONCLUSION

- 5.1 The paper outlines the current financial situation faced by Argyll and Bute Council's Employability Team. If additional non DWP contractual income opportunities are not realised in the immediate future, this will impinge on the medium to longer term financial sustainable of the Employability Service, with a knock-on impact with regard to the current support provided to the long term unemployed across the area.
- 5.2 The Team has already taken a number of necessary steps to mitigate against the drop in income by making cost savings, including a reduction of five posts across the service that were not replaced when staff left and through a reduction in office costs. The Team continues to liaise with HR and the Trade Unions on the current and proposed staffing complement going forward.

5.3 The financial performance of the Employability Team is being monitored closely on a daily basis. Corrective action will continue in order to realise at least a breakeven position. Further reports will be brought to the committee to provide an update on progress.

6.0 IMPLICATIONS

- 6.1 Policy The service fits and contributes to Outcome 3: *Education, skills and training maximises opportunities for all of the Argyll and Bute Community Planning Partnership's Single Outcome, with a particular focus on the short term outcome 3.2: to ensure education and skills training opportunities are aligned to economic development opportunities both within Argyll and Bute and nationally.*
- 6.2 Financial The current financial model associated with contractual delivery of UK Government Welfare to Work contracts is becoming increasingly untenable.
- 6.3 Legal Employment Law regulations aligned to the Argyll and Bute Council's Redundancy Policy & Procedures will be adhered to with regard to the current reduction /redeployment of staff.
- 6.4 HR If the longer term financial sustainability of the Employability Team cannot be achieved this will have a direct effect on the remaining staff complement.
- 6.5 Equalities The business model for the delivery of the Council's Employability service is aligned with the Equalities Act 2010 and in turn the Council's Equal Opportunities policies and practices.
- 6.6 Risk If additional non DWP contractual income opportunities are **not** realised in the immediate future, this will impinge on the medium to longer term financial sustainability of the Employability Service, with a knock-on impact with regard to the current support provided to the long term unemployed across the area.
- 6.7 Customer Services None.

Pippa Milne, Executive Director of Development and Infrastructure

Policy Lead Aileen Morton

For further information contact:

Ishabel Bremner, Economic Development Manager, tel: 01546 604375

James Paterson, Employability Team Manager, tel: 01586 555969

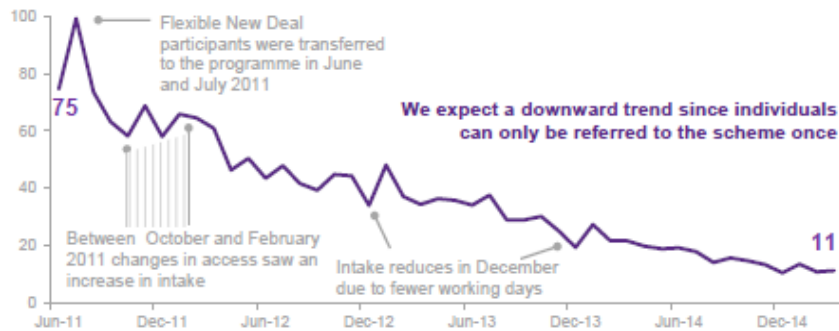
Appendix 1: National Work Programme Statistics

Joining the Work Programme

The Work programme uses private and public companies, called providers to find work for claimants transferred from Jobcentre Plus at specific points in their claim.

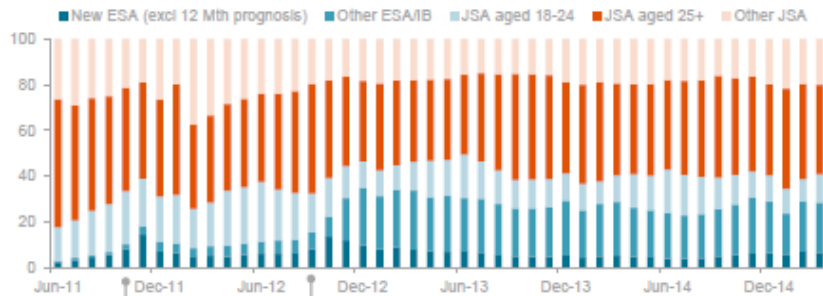
Monthly intakes are decreasing

Intake in thousands in each month from June 2011 - March 2015



The makeup of monthly intakes has been changing

percentage of each monthly intake made up by each customer group



From October 2011, New ESA claimants expected to be fit for work within 6 months joined immediately

Differences from September 2012 reflect changes in access to the programme

Main findings

The number of individuals joining each month has been decreasing. Since individuals generally remain on the Work Programme for 2 years, until late May 2013, the overall number being supported increased month on month, at which point the first intake began to complete the Programme.

See Table 1.1 for full data.

More recent intakes contain a higher proportion of individuals expected to require more support and assistance. A little over a quarter of the March 2015 intake is from ESA groups compared to less than 3% in the first intakes to the scheme.

Differences since September 2012 reflect changes in access to the Programme, especially for ESA claimants including the introduction of information sessions for potential ESA volunteers and a Jobcentre Plus exercise to identify eligible ESA Claimants who had not been referred to the Programme.

See Table 1.2 for full data.