



Supply Chain Management

A good practice guide for
the post-16 skills sector

from the sector for the sector

Foreword



This guide is designed to help providers minimise the risk within supply chains, ensuring that they offer high-quality provision that is responsive to the needs of local communities, learners and employers.

I have always promoted the positive aspect of our sector's willingness to share good practice and our ability to continue to learn from each other. This guide uses this philosophy and offers a step-by-step approach to good practice in supply chain management, taken from the sector, for the sector.

The guide, together with the case studies and the Supply Chain Management Resource Bank (available on the AELP website), offers providers and practitioners examples of good practice (drawn from independent providers, FE colleges, the third sector and provider networks) and gives a greater insight into the strategic importance of effective supply chain management.

All providers involved in supply chains, whether primes or sub-contractors, are encouraged to adopt the suggested approach. If the good practice exemplified in the guide is embedded in supply chains throughout the post-16 learning and skills sector, then the Government and its agencies can be confident that they are getting good value from the public purse, and that learners and employers are benefiting from high-quality training.

The sector's proactive drive to self-improve sub-contracting is further endorsed by the opportunity for providers to sign up to a shared set of guiding principles in the form of a Sector Common Accord. The Supply Chain Management Common Accord has been developed by the sector for the sector, and by using the current good practice included in this guide as a sector standard.

AELP is grateful to the Learning and Skills Improvement Service (LSIS) for supporting the production of this guide, which I hope you find useful as you strive to continually improve the quality of provision for both learners and employers through effective supply chains.

Graham Hoyle OBE

Chief Executive, Association of Employment and Learning Providers (AELP)



I am pleased to commend the collaboration of AoC, AELP and LSIS in the production of this comprehensive guide to supply chain management and sub-contracting. The further education (FE) sector has always responded well to challenge, and this guide, alongside the Common Accord, is another great example of the sector seeking effective ways to develop and share good practice. Many colleges and other providers will continue with 'business as usual' in supply chain management as they will already be meeting the exemplars of effective practice within the guide and have processes in place to continually improve. For others, the guide will provide an invaluable template to develop effective processes and systems, particularly around sub-contracting.

The AoC/AELP sub-contracting drivers survey and the Ofsted report on quality in Apprenticeships provided some useful insights into what is being done well, and what areas could benefit from further development. The Common Accord and this guide, alongside

effective peer review, will provide the sector with robust guidance on the required standards that need to be maintained across the sector.

By signing the Common Accord, colleges and other providers can be seen to be responding effectively to the challenge of ensuring that the quality of delivery within their supply chain sub-contractors is subject to the same level of scrutiny as direct delivery, and that systems and processes are fair for all involved and will be continually assessed and improved.



Martin Doel

Chief Executive, Association of Colleges (AoC)

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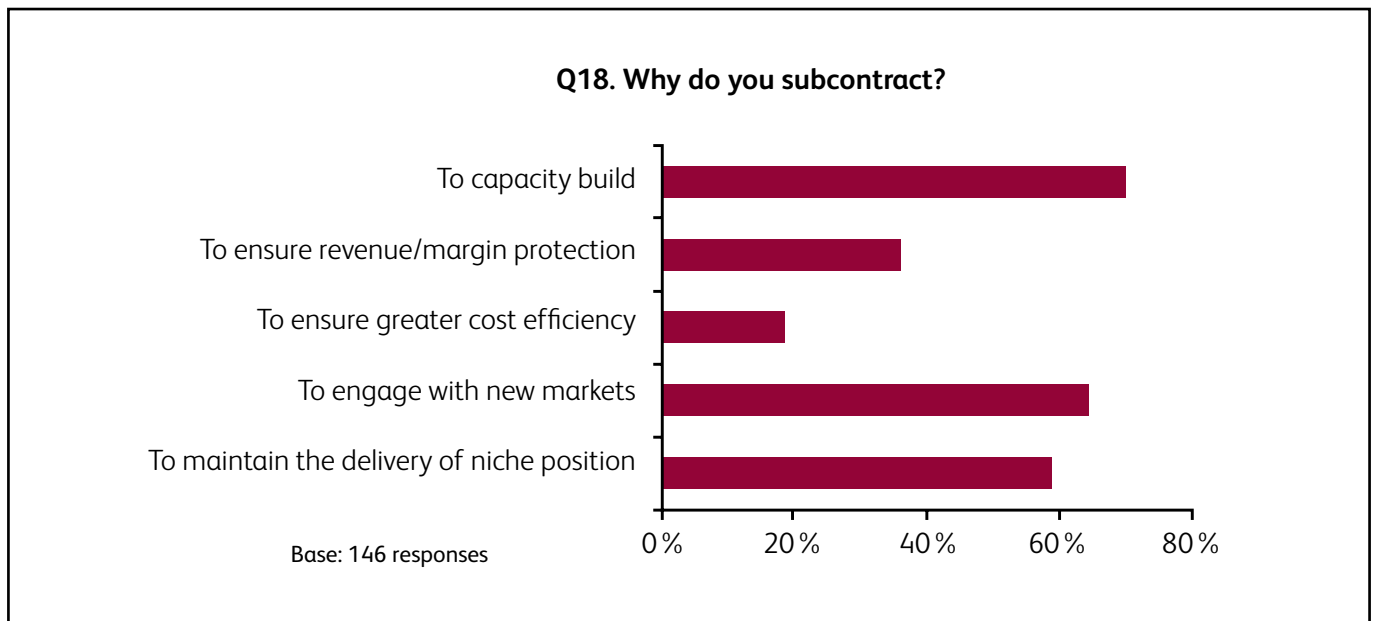
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Introduction

Over the past few years, our sector has seen a continual growth in sub-contracting. This has been due to a combination of new providers entering the market, existing providers working more closely together, the introduction of Minimum Contract Levels (MCLs), and the continuation of existing sub-contracting arrangements.

A recent supply chain survey commissioned by the Skills Funding Agency (referred to as 'the Agency') showed a variety of reasons why providers enter into sub-contracting:

Skills Funding Agency - *Supply Chain Survey*



The overall aim of this guide, together with the case studies and SCM Resource Bank (<http://www.aelp.org.uk/supply/>) is to support high-quality provision and maintain confidence within the sector - with our customers (end-users or learners), clients (employers) and stakeholders (government agencies, e.g. the Agency and the National Apprenticeship Service).

The guide focuses on supply chain management (SCM) and is aimed at all post-16 training and education providers - big and small - including independent training providers, FE colleges, specialist colleges, third sector and voluntary organisations, and public bodies (e.g. local authorities). It can be used by providers to review and benchmark their own sub-contracting practice in order to help them continually improve, and by providers considering SCM either as a prime or sub-contractor.

The best industries are successful because they have effective SCM - from selecting the best suppliers to forming long-term relationships and integrating the continual development of suppliers within their own business excellence.

In most cases, providers will have constructed and implemented their own SCM systems and resources. A positive aspect of our sector is our willingness to proactively share good practice and learn from each other. This guide recognises this and offers a step-by-step approach to good practice in SCM. It is intended that you use this guide in conjunction with the sub-contracting toolkit produced by AELP and LSIS in 2010 and revised in 2011; these can be found on:

<http://www.excellencegateway.org.uk/node/2945>

<http://www.lsect.co.uk/documents/Sub-contracting-toolkit-19-12-10.pdf>

This guide enhances the sub-contracting toolkit and offers providers and practitioners examples of good practice and an insight into the strategic importance of SCM. Other models are also available, such as:

- the Department for Work and Pensions Merlin Standard™
- the post-16 sector's own previous models, e.g. the Training and Enterprise Council Quality Assurance: Supplier Management (known as TQA:SM).

For summaries of the above models, see links in the SCM Resource Bank: <http://www.aelp.org.uk/supply/>

As the funding that moves through the supply chain is largely public, it is important that the systems and processes that the sector uses, and the way that standards are regulated, are seen to be effective and fair to all those using them, and all those who have a stake in the system.

There is growing recognition that supply chains in our sector are networks of independent but interdependent organisations. There is an ethos of co-operation and trust that acknowledges that the 'whole can be greater than the sum of its parts'.

"The complexity, costs and risks of entering into sub-contract arrangements should not be underestimated. In order for it to work well, it's really important to be clear right from the outset why you want to sub-contract, what is it that you are trying to achieve, and what volumes you are looking to sub-contract. It is also important to be clear about the type of partners you are looking for. At WBTC it was crucial that we contracted with organisations with the same values and ethos as our own."

Matt Garvey - MD, West Berkshire Training Consortium (WBTC)

This quote is taken from the WBTC case study. WBTC is an example of an independent organisation that has formed a supply chain to increase 16-18 provision. The full case study is available in the SCM Resource Bank:

<http://www.aelp.org.uk/supply/details/2-local-provider-case-studies-and-resources/>

Defining supply chain management

Many industries operate a supply chain to produce products and deliver services. The post-16 skills sector is no different - we use resources to achieve an overall outcome, in just the same way as the supply chain works for other industries.

The term 'supply chain management' arose in the late 1980s and came into widespread use in the 1990s. Prior to that time, businesses used terms such as 'logistics' and 'operations management'. Here are some definitions of a supply chain:

- *"A supply chain is the alignment of firms that bring products or services to market."*
Lambert, Stock and Ellram, 1998
- *"A supply chain consists of all stages involved, directly or indirectly, in fulfilling a customer request. The supply chain not only includes the manufacturer and suppliers, but also transporters, warehouses, retailers, and customers themselves."*
Chopra and Meindl, 2003

If this is what a supply chain is, then we can define SCM as the things we do to influence the behaviour of the suppliers and get the results we want. Based on this, the following statement is a suggested broad view that may be a good fit for our sector and provide a common understanding.

To operate a systematic and strategic supply chain, for the purpose of improving long-term relationship(s) and delivering a high-quality learner experience. We should also recognise other supply chain practices are key components to integrate as part of a quality improvement strategy. Best practice SCM is based on benchmarking, where the best prime contractor recognises the need to improve and continually adopts and adapts other practice.

Supply chains within our sector

There is a range of sub-contracting types to suit our purposes and the best approach for delivery. To help us share a common understanding and language, some suggested definitions are given below.

Suggested SCM types and relationship with sub-contractor

SCM type	Suggested definition
Consortium	One single contract where its delivery components are shared among a range of providers by shared agreement. Managed by a consensus, where a lead provider is appointed or an independent body represents the collective (all providers).
Managing agent	One single contract where the sole purpose of the contract holder is to deliver through multiple sub-contracts using a competitive procurement process. The contract holder is not involved in direct delivery.
Prime	The principal contract holder is at primary level and identifies their internal capacity and capability, and any gaps are delivered through a sub-contract arrangement. The principal contract holder directly delivers the majority of the contract.
Sub-contractor	The sub-contract holder is at secondary level. The sub-contractor delivers components of the main contract either for the prime, managing agent or consortium.

Where a partnership or collaboration is formed, these arrangements should not be confused with sub-contracting. Whilst these are useful approaches to delivery, they do **not** form part of SCM in this context and, therefore, sit outside sub-contracting rules and the scope of this guide.

- A **partnership** is two or more providers agreeing to work together. They deliver a joined-up approach for the equal benefit of each provider. Each partner will use and directly deliver their own contract as part of the arrangement.
- A **collaboration** is similar to a partnership, but it works on the principle that there is not an equal benefit for each provider. Its focus is to use the strengths of each provider to achieve the end goal. Each collaborator will use and directly deliver their own contract as part of the arrangement.

Furthermore, within the supply chain, the term ‘sub-contracting’ can be used for various supplier relationships.

A supply chain can (and does) include any supplier of services or products that are purchased by the contractor. However, within the scope of this guide, and to enable providers to fulfil their Agency contract obligation, it should be recognised that a supply chain exists only where a sub-contractor delivers to the end-user (learner).

Within this context we can also separate SCM into two key areas of sub-contracting - **provision** and **services**. This is an important shared understanding, as it also determines the depth and breadth of SCM requirements.

To help, here are suggested sub-contracting terms and definitions (with examples) that best fit our sector. These should help you understand the language and, more importantly, determine the level of risk within the sector. It is important to reiterate that in both cases the prime retains full accountability of contract delivery, such as use of funds, quality and learner experience.

- **Provision sub-contract** is when a prime contractor has agreed a sub-contract(s) with a provider(s) and allocated part of their (prime’s) provision. Therefore, the sub-contractor will hold its own funded allocation profile to achieve starts and outcomes. For example, provider A (the prime contractor) delivers healthcare and diversifies its offer by contracting with provider B (the sub-contractor) an allocation of funding to deliver business administration.
- **Services sub-contract** is when a prime contractor has purchased a specialism(s) from a provider(s) to deliver a service for the prime. Therefore, the prime retains all its provision but uses the sub-contractor’s services as an integral part of its delivery. For example, provider Y (the prime contractor) delivers construction and increases its capacity by contracting with provider Z (the sub-contractor) to purchase off-the-job knowledge training.

“The excellent management of subcontractors that leads to improved performance and better outcomes for learners... The contract between the provider and subcontractors is well considered and details clear expectations. Managers and providers’ staff are in frequent contact with subcontractors and relationships between parties are generally good. Regular contract monitoring meetings are held where appropriate levels of challenge and support are provided to ensure the best interests of the learners are served... Records show that in many subcontractors, success rates improve year-on-year and, in many cases, success rates for learners from the provider are higher than success rates for the subcontractors’ own provision.”

Ofsted - November 2009

This quote is taken from an Ofsted report cited in the CITB-ConstructionSkills case study. CITB-ConstructionSkills is an example of a national provider that uses a service procurement approach to fully utilise the capacity and capabilities of local providers. The full case study is available in the SCM Resource Bank: <http://www.aelp.org.uk/supply/details/1-national-provider-case-study-and-resources/>

Policy context

The Government directs its funding through its Skills Funding Statement, which continues to implement (with some revisions) the overriding Skills for Growth Strategy. Both are key to informing providers about how they operate, evolve, structure their delivery and work together, whether that is in collaboration, partnership or part of a supply chain.

“...‘Skills for Growth’ is a national strategy for economic growth and individual prosperity. It takes some important decisions and marks a radical shift in some of the priorities of our skills system. Skills are a key part of our plan for economic recovery, and an urgent challenge. This country’s future can only be built by people who have the skills demanded by modern work in a globalised economy. Skilled people are more productive and more innovative. Skills give individuals wider options; they climb higher, earn more and get more out of work. And skilled people are the foundation of successful businesses...”

Skills for Growth, Department for Business, Innovation & Skills, October 2010

The Skills Funding Statement 2011-2014: *Investing in a World Class Skills System* demonstrated the Government’s continued commitment to investing in skills. It also made clear the intention to improve value for money across the sector.

“...Subcontracting can represent a higher risk to public funding. It is however an important element of the further education system, and where used well enables it to provide a high-quality, locally responsive offer. It is clear that we need the right balance between promoting high-quality supply chains and the right controls to tackle activity that is not in the best interest of learners and employers...”

Skills Funding Agency, Kim Thorneywork, Interim Chief Executive (re: New Subcontracting Clause 2012/13; extract August 2012)

The Agency has ensured that the Funding Rules (2012/13) and Revised Funding Agreement (1 August 2011 to 31 July 2014) make specific and explicit reference to sub-contracting.

“Sub-contracting significant levels of provision can increase levels of risk. The Chief Executive allows sub-contracting to one level. Where Providers wish to sub-contract to a second level, Providers must have approval from the Agency in writing. The Chief Executive reserves the right to refuse to permit a Provider to sub-contract at all or to specific sub-contractors.”

Funding Rules 2012/13

http://readingroom.isc.gov.uk/SFA/Funding_Rules_-_Version_3_-_30_July_2012.pdf

Wider context

The introduction of an MCL (at £500K) in 2011 and the original intent that this may be higher in future years have been drivers in changing the provider landscape. However, sub-contracting is not new to the sector. The major change has been the contracting-out of funded **provision**, as opposed to purchasing **services**.

The Agency continues to invest and develop the supply chain, whether that be through use of funds for allocating provision or through purchasing services.

It is therefore the sector’s role and responsibility to demonstrate good practice and to maintain the trust of the Agency. Providers must show that they are confident and capable of delivering programmes that offer value for money. The aim is to ensure high-quality provision and remain responsive to learners and employers when using sub-contractors.

Overview of supply chain management

SCM can be divided into two stages - **pre-contract** and **contract delivery**.

The following table provides an overview, suggesting sequential good practice steps; these are further broken down in the step-by-step section of this guide.

Stage	Step	Activity	Prime to consider	Sub to consider
Pre-contract	Develop the business case	<ul style="list-style-type: none"> • Provision: <ul style="list-style-type: none"> - expand - diversify • Service <ul style="list-style-type: none"> - capacity - specialism 	Internal investment vs outsource	Can we deliver complete programme? Can we offer a specialist area?
Pre-contract	Establish selection process	<ul style="list-style-type: none"> • Open tender • Specification of needs • Approached • Preferred (known) 	<i>Official Journal of the European Union</i> (OJEU) thresholds Best fit	Register of Training Organisations approved - check prime
Pre-contract	Assess capacity and capability	<ul style="list-style-type: none"> • Information memorandum • Due diligence • Approval • Contract 	Determine suitability Risk status Decision-making process	External support Know strengths and weaknesses
Contract delivery	Manage performance (and learning)	<ul style="list-style-type: none"> • Monitor • Review • Evaluate • Quality improvement • Sharing good practice • Peer review 	Management information system (MIS) Quality assurance (QA) Key performance indicators Impact	Data and systems Measures Action plan Resources Cost/benefit
Contract delivery	Fees	<ul style="list-style-type: none"> • Provision • Services 	Risk Level of support Type of provision delivered Tariff set by service provided	Transparency Best option fee plus level of support Best price for service

Good Practice Tips - SCM structure

Prime providers should consider:

- having a clear strategy outlining the business rationale for sub-contracting and sharing this with potential sub-contractors at the time of commissioning
- ensuring that potential sub-contractors are assessed against established and transparent selection criteria, which in effect, mirror the requirements that the prime providers have with the Agency
- assessing potential sub-contractors to ensure that they meet the required quality standard, and supporting them to develop operating processes and policies to the highest standard
- being prepared to learn from sub-contractors, recognising and making an example of their good practice
- having a contract that clearly identifies the terms of the sub-contracting arrangement, reflecting the Agency contract
- encouraging a relationship between themselves and their sub-contractors from one that extends beyond the definitions of the contract, to one which operates in a spirit of support, co-working and transparency
- ensuring that sub-contractor reviews are supported by development action plans that build the capacity of the provider to offer the best possible services to learners.

Prime contractor role

Once a provider (prime) has decided to be a prime contractor for either allocation of provision or purchasing of a service, the provider accepts and retains full accountability for their sub-contractor's performance and actions.

The Agency Funding Rules clearly state the role of a provider that contracts out their provision and/or purchases a service:

Para: 237. "The Provider retains ultimate responsibility for all aspects of the provision it has been contracted to deliver including subcontracting. The Provider must have a legally binding contract with each of its subcontractors. All subcontracted provision is subject to the same rules as other Agency funded provision."

The prime provider (contractor) has to be completely satisfied with the sub-contractor's financial health, capacity and capability, and quality of delivery, including their equality, diversity and ethical values. It is insufficient for the prime contractor to rely on the fact that the sub-contractor has obtained entry to the Register of Training Organisations, as this does not mean an organisation has appropriate capacity and capability to deliver. Doing so may put the prime provider at a high risk.

"Enable works well with its subcontractors to provide a comprehensive approach to meeting the needs and interests of users... ...the provision is highly effective in engaging hard-to-reach learners..."

Ofsted

This quote is taken from an Ofsted report cited in the Enable case study. Enable is an example of a members' organisation that uses a community-based approach to embrace new ways of working for the hard-to-reach. The full case study is available in the SCM Resource Bank:

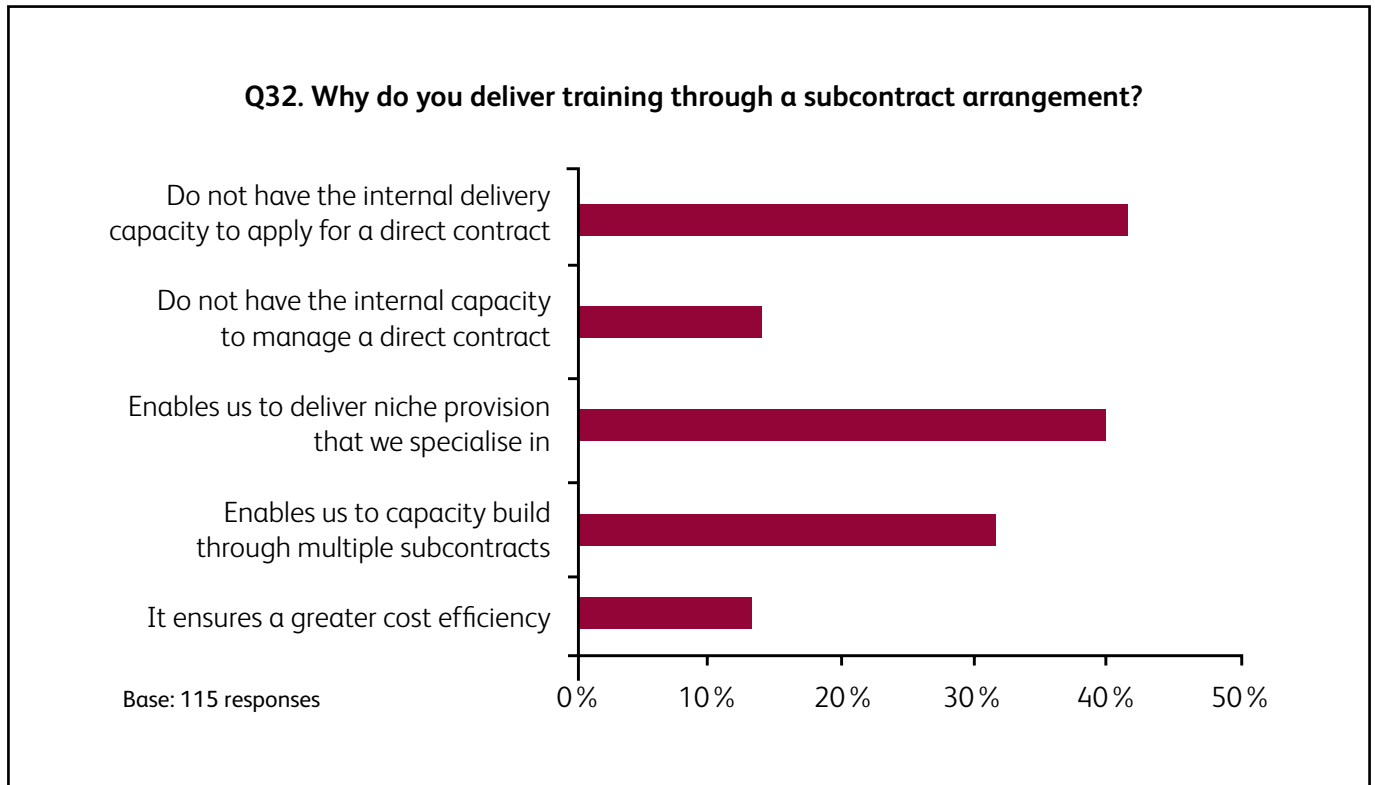
<http://www.aelp.org.uk/supply/details/5-third-sector-provider-case-study-and-resources/>

Sub-contractor role

Once a provider has decided to be a sub-contractor for either direct delivery of provision or support delivery of a service, the provider accepts their responsibilities to the prime (e.g. allowing scrutiny of their organisation), whilst also being compliant and governed by the Agency Contract and Funding Rules (refer to page 70 'mandatory terms to be included in providers subcontracts' http://readingroom.isc.gov.uk/SFA/Funding_Rules_-_Version_3_-_30_July_2012.pdf).

As seen below, providers have a range of reasons for delivering as a sub-contractor.

The Skills Funding Agency Supply Chain Survey



The sub-contractor has to be completely satisfied with the prime's financial health, capacity and capability to manage a sub-contract, including their equality, diversity and ethical values. The secondary provider cannot rely on a prime's status on the Register of Training Organisations.

A provider may commit to a sub-contractor role for either or both of the following reasons:

- **best price** = the net unit price a prime offers to pay a sub-contractor for delivery, once their fees and charges have been deducted, enabling sub to optimise income
- **best support** = the level of support a prime offers to develop sub-contractor to improve delivery capacity and capabilities, enabling sub to focus on delivery and be ready for direct contract (if so desired).

"The benefits of working with BCTG are numerous - from supporting our delivery to updating us on sector news, improving our teaching and learning, and understanding our business needs".

Wilf Buck - MD, Eurosource Solutions Ltd

This quote is taken from the BCTG (Black Country Training Group) case study. BCTG is an example of a consortium that uses a managing agent approach to support its supply chain. The full case study is available in the SCM Resource Bank:

<http://www.aelp.org.uk/supply/details/3-consortia-provider-case-study-and-resources/>

A step-by-step approach to supply chain management

The two stages of SCM - pre-contract and contract delivery - can be broken down further into the following steps and descriptors. These steps have been based on existing good practice within the sector and include prompt questions where relevant. The steps are a tried and tested approach that allow some flexibility to meet your needs. They will help you decide on the best approach to SCM, whether you are a prime or a sub, whilst using peer review to continually learn new ways of working.

Step 1 - Developing the business case

Prime contractor

To meet our customers' needs do we need to:

- expand our provision?
- diversify our provision?
- grow our provision?

Can we achieve this:

- with our own resources?
- by allocating some of provision to a provider(s)?
- by purchasing a specialist service from a provider(s)?

Decision point: What are the costs/benefits of an internal solution (investment) vs an external solution (sub-contract)?

Sub-contractor

To meet our customers' needs should we gain:

- a direct Agency contract?
- a sub-contract with a provider?

Decision point: What are the costs/benefits of a direct contract vs a sub-contract?

Step 2 - Establishing the selection process

As a prime contractor, deciding on the process to select a sub-contractor(s) will be determined by your answers to some key questions:

- Are you allocating part of your provision?
- Are you purchasing services to support the delivery of your provision?
- Is the combined value of sub-contracts above the EU procurement directives threshold?
- Have you been approached by a provider as a potential sub-contractor?
- Do you know a provider you wish to approach?

Decision point: Which selection process will best meet the business need to be determined by the prime contractor?

“Manley Summers stood out because, rather than ringing up and immediately telling me how many starts they could offer me, they talked about the specific occupations they offered training in and the learners they worked with. ...Manley Summers works with young people from some of the most deprived postcodes in London, helping them to secure jobs, so there was a real synergy between the two organisations. I was so impressed by that initial call that I immediately set up a meeting with their MD...”

Matt Garvey - MD, West Berkshire Training Consortium (WBTC)

This quote is taken from the WBTC case study. The full case study is available in the SCM Resource Bank: <http://www.aelp.org.uk/supply/details/2-local-provider-case-studies-and-resources/>

Good Practice Tips - customer satisfaction

To ensure customer satisfaction:

- prime providers should standardise the learner and employer survey so that it can be used across their provision as a quantitative management tool
- prime providers could look at the feasibility and cost effectiveness of centralising learner and employer surveys
- data from learner and employer surveys should be treated as a performance measure at all reviews
- prime providers should work with their sub-contractors to actively respond to learner and employer feedback, and to use survey outcomes to improve the quality of the learning experience.

Tender processes

Key

A. Open (to all providers)

B. Selective (open only to preferred providers; may be subject to EU regulations)

C. Approach (response to providers who have approached/requested sub-contract; may be subject to EU regulations)



Good Practice Tips - developing the supply chain

To help share good practice with sub-contractors, the prime provider should:

- develop clear guidelines for involvement with the QA process and make sub-contractors aware of how to participate in these
- support sub-contractors' participation in the process through peer review, guidance, facilitation and support, and involvement in CPD and reviews
- look at cost-effective ways to utilise technology for QA, such as MIS
- ensure that self-assessment reports (SARs) and quality improvement plans (QIPs) contain designated sections on sub-contracted provision that sub-contractors are able to contribute to
- check that all the sub-contractors receive a copy of the final SAR and QIP, to be part of overall development
- ensure that they plan a timetabled process of reviews and quality audits of sub-contracted provision in collaboration with sub-contractors.

Step 3 - Assessing the capacity and capability

It is an important part of building a winning relationship to ensure that the sub-contractor has both the capacity and capability to deliver their (tender) promise. All three selection methods shown in step 2 will include the same assessment components.

A) Information memorandum

This is ideally requested by the prime as part of the tender/base documentation and includes:

- organisation overview
- structure - legal and operational
- rationale for contract request
- demand-led evidence
- added value to prime contractor and sector
- current offer
- QA systems
- financial health check
- completed Agency Register (online due diligence process)
- references.

The desktop assessment involves a detailed evaluation of information by an experienced contract manager and other specialists. This informs the decision as to whether or not to proceed with a sub-contract request. It is also good practice to have a transparent process, whether that is to ensure you comply with EU directives (<http://www.ojec.com/>) and/or remain objective in your judgement. The prime contractor has to determine the risk status.

B) Due diligence site visit

Following the desktop assessment, a due diligence site visit is arranged to those providers the prime wishes to proceed with. An experienced team will visit the sub-contractor's premises (and other sites). The desktop assessment will be used to inform the depth and breadth of examination. The team will:

- consider the capability and capacity assessment
- thoroughly examine the information provided
- conduct a financial audit
- interview the management team and a sample of staff
- conduct a health, safety and safeguarding assessment
- identify strengths, potential risks and development needs.

C) Approval

After all the evidence has been collated, a judgement is made with three possible outcomes:

- **approved unconditional** = you are fully satisfied with the provider's capacity and capability
- **approved conditional** = you are satisfied with the provider's capacity and capability but have highlighted some areas for improvement or potential risk
- **not approved** = you are not satisfied with the provider's capacity and capability, so decide not to proceed. (Offer a formal feedback meeting.)

Decision point: The prime contractor has to determine risk e.g. as high/medium/low, or red/amber/green.

D) Contract

Based on the approval level, through discussion or negotiation, both the prime and the sub will agree their contract content and value. The following core contract components will be agreed:

- sub-contractor profile
- sub-contractor duty (and QIPs)
- prime contractor duty
- prime contractor service offer
- prime contractor management and service charges based on due diligence results
- a contract volume and value.

It is good practice to have your contract checked by a legal adviser. The contract should always reflect the in-year Agency Funding Rules and updates.

Remember to declare to the Agency your sub-contractor arrangement; this is normally in August and April in year. For information, see: <http://skillsfundingagency.bis.gov.uk/providers/Subcontracting/>

Good Practice Tips - contract management

In your administration of SCM be aware that:

- documentation across a provider does not need to be unified as long as the prime provider has approved the paperwork that is in place for each sub-contractor; in many cases the sub-contractors will have exemplary documentation - the prime may wish to adopt this
- robust management information is generated at a prime provider and sub-contractor level; the prime provider and sub-contractors should have dual access to a suite of relevant and accurate reports
- prime providers should utilise systems that ensure all sub-contractors have access to live data
- prime providers should check that sub-contractors understand how to interpret the data and that it is reconciled on a timely basis
- prime providers should ensure that they deliver regular compliance audits to check the authenticity of data supplied by sub-contractors
- nominated contacts in both the prime provider and sub-contract organisations should undertake at least quarterly formal meetings to review data against contractual performance indicators; these meetings should be complemented by the continuous review of data through informal dialogue
- where underperformance is identified it should be addressed through targeted, measured action plans, and backed by support and development from the prime provider.

Step 4 - Managing performance

SCM starts with ensuring that you have selected the right provider(s) as sub-contractor(s) and that this is agreed using a formal and legal contract, which mirrors or makes reference to the Agency Contract Terms and Funding Rules.

Once a sub-contractor(s) is selected, the prime uses a dedicated and trained contract management team (depending on the size of the contract issued). The management of sub-contractor performance is based on level of approval and risk status. The prime will monitor, review and evaluate in order to inform corrective, preventative and improvement actions and manage risk through contingency planning.

Monitoring can include:

- having monthly conference calls and/or visits
- examining MIS and claims
- support visits.

Review can involve:

- quarterly formal meetings
- an examination of all aspects of the contract
- planning future actions.

Evaluation can include:

- annual assessments/audits
- looking at contract performance
- the contract renewal decision-making process.

The level of contract management and service provided by the prime to the sub-contractor would have been determined at approval stage. In all cases, it makes good business sense for risk management and contingency plans to be in place by the prime contractor and sub-contractor.

“Their advice and support has been invaluable! If I have a query or just something I need to talk through, all I have to do is pick up the phone. Matt and his team are keen to explore all sorts of ideas, whether it be about how to maximise income or how we can improve the learner journey. Equally, we share our expertise with them, as we have many industry leaders working for us who are keen to share their knowledge.”

Harviss Pervez - Business Development Manager, Manley Summers

This quote is taken from the West Berkshire Training Consortium (WBTC) case study. The full case study is available in the SCM Resource Bank:

<http://www.aelp.org.uk/supply/details/2-local-provider-case-studies-and-resources/>

“BCTG recognises the need to invest time and effort in supporting, developing and working with providers in its consortia. If we do this successfully, we will all reap the rewards of improved performance.”

Chris Luty - Director, BCTG.

This quote is taken from the BCTG (Black Country Training Group) case study. The full case study is available in the SCM Resource Bank:

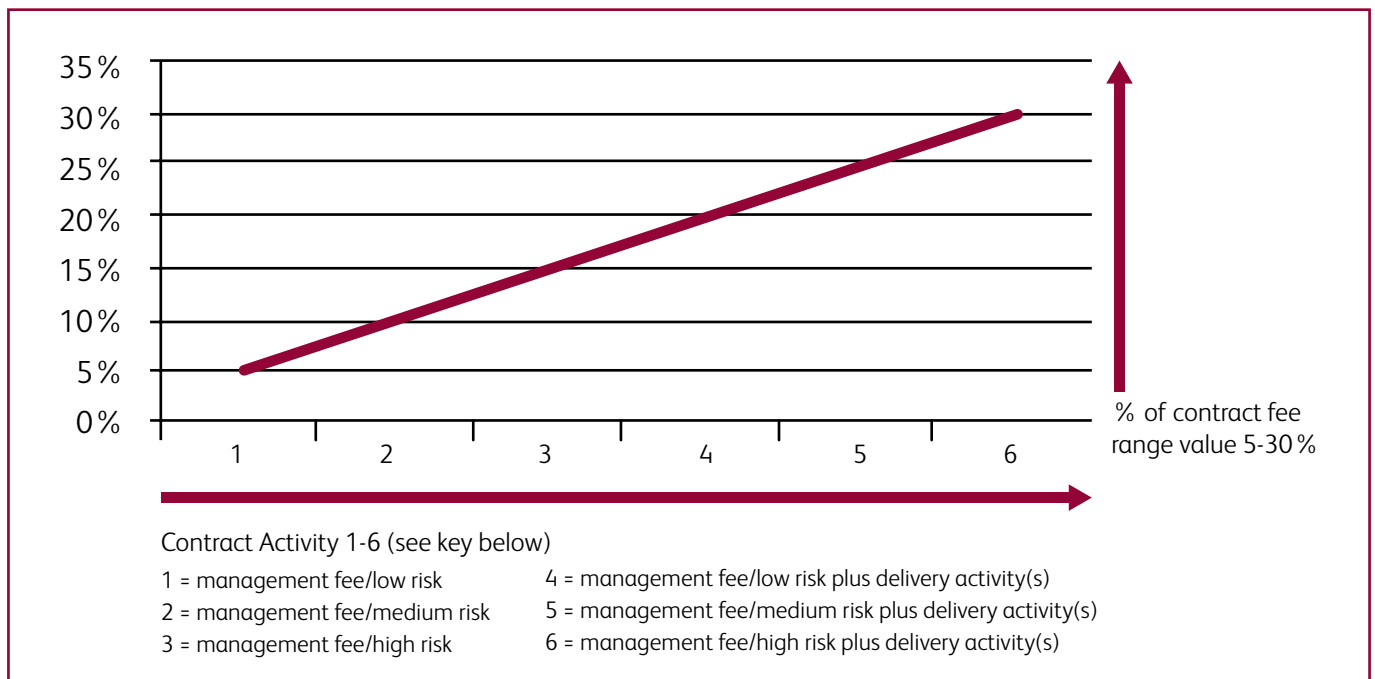
<http://www.aelp.org.uk/supply/details/3-consortia-provider-case-study-and-resources/>

Step 5 - Contracting fees

It is accepted that the prime contractor will incur costs to manage the sub-contracting process, such as pre-contract assessment, performance management and risk management (accountability). In addition, depending on the type of contract and its requirements, the prime may charge for the support of a sub-contractor, or set out a tariff to purchase services. It is not possible to set one fee, given the permutations that are possible to meet the needs of both parties. However, fees can be divided into the two sub-contracting areas and there are formulae for charges:

- allocated provision contract = management fee % of contract value (% determined by level of activity and risk band)
- purchased services contract = fixed tariff per service; varies by type of service.

Fees model - allocated provision contract - sub-contracting charges (example)



Fees model - purchased services

Options include:

- no management fee chargeable
- a list of services priced individually.

Risk may also influence pricing policy.

Good Practice Tips - forming a fee structure

In relation to fees, as a prime provider you could consider:

- offering transparency in how your management fees are calculated, and the services that sub-contractors can expect from you
- cross-charging for additional services above core management (such as verification), based on usage
- allowing sub-contractors to review and negotiate management fees.

“Safety Problem Solutions has been working in partnership with West Nottinghamshire College (WNC) for over two years and our progress with winning our own direct contract has been directly down to the support and guidance we have received from the team at WNC.

Before we were given a contract with WNC, we had to go through a full quality audit that identified what support Safety Problem Solutions needed to become a successful partner. We then had different teams from WNC giving us information, support, guidance and training to all staff at all levels to make us the provider we are now.”

Glenn Morgan - Contracts Manager, Safety Problem Solution

This quote is taken from the West Nottinghamshire College (WNC) case study. WNC is an example of an FE college that uses sub-contractors to provide work-based learning on a local, regional and national level. The full case study is available in the SCM Resource Bank:

<http://www.aelp.org.uk/supply/details/4-fe-college-provider-case-studies-and-resources/>

The role of risk assessment

Below is a list of factors that providers have used to produce a risk-banding framework. Weightings can be given for each factor - these may differ to reflect prime operating arrangements and priorities. Although the list is by no means exhaustive, these factors may be useful pointers if you are in the process of developing or improving your risk assessment.

Risk factor checklist:

- duration of the contract
- value of the contract
- industry types and vocational area
- health and safety/equal opportunities
- required outputs
- non-completion, leaver or drop-out rates
- supplier staff turnover
- sensitivity of the programme/political profile
- track record of the supplier
- degree of innovation needed
- underlying policy agenda
- importance of the provider to the prime
- publicity value.

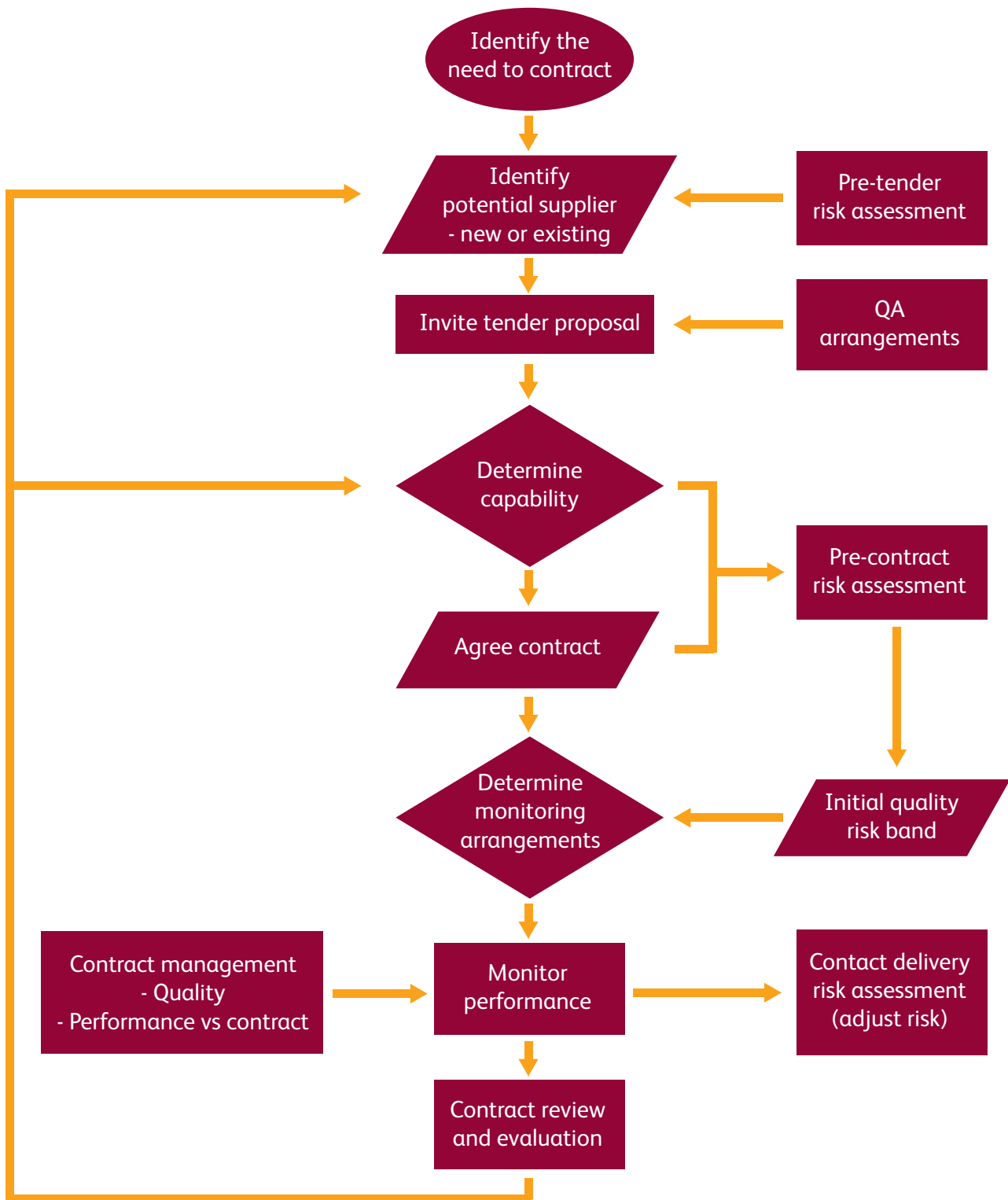
Once these factors (and others) have been determined as a result of your pre-contract due diligence process, a method of scoring and banding arrangements will need to be agreed. Examples of tried and tested methods to risk assessment and performance management are given in the SCM Resource Bank.

Good Practice Tips - contingency

In terms of contingency:

- ensure that performance management and support measures with set processes are in place, in case of sub-contract failure
- prime providers should maintain a level of due diligence over sub-contractors, in order to attempt to identify early signs of organisational failure
- prime contractors should have a contingency plan, outlining the process to be taken in the event of a breakdown in contracting relationships - this should include guidance on the continuity of learning, communication to learners and employers, and TUPE guidelines for staff
- remember that effective quality processes would highlight potential problems.

The following process flowchart provides a good practice example on how risk management can be integrated with SCM.



“It is crucial that everything is clear right from the start. You need to have robust systems in place that are consistent and ensure that there is complete clarity regarding roles and responsibilities. Where we have had issues with sub-contractors, the problems are almost always due to arrangements being vague in the first instance.”

Becky Diamond - Director of Curriculum, KEITS

This quote is taken from the KEITS Training Services Ltd case study. KEITS is an example of a local provider that has used a sustainability approach to encourage and enable new providers to deliver Apprenticeships. The full case study is available in the SCM Resource Bank:

<http://www.aelp.org.uk/supply/details/2-local-provider-case-studies-and-resources/>

Benefits of good practice

A summary of the benefits of good practice SCM (and some areas of risk) are given in the table below.

Type	Pros for prime	Pros for sub	Cons for prime	Cons for sub	Best fit
Provision good practice	<ul style="list-style-type: none"> • Diversity • Provides employer broader offer • Supports delivery of Agency contract • Builds capacity • Growth and reach • Peer development 	<ul style="list-style-type: none"> • Access to funding • Level of security • Manage growth • Learning process • Additional services from prime • Peer development • Capacity build for direct contract 	<ul style="list-style-type: none"> • High risk if not managed • Impact on quality • Under-delivery of contract • Extra costs incurred • Creating competition 	<ul style="list-style-type: none"> • High risk if not managed • Not a direct contract • Costs vs income • Contract not renewed 	<p>The allocation of provision from prime to sub:</p> <ul style="list-style-type: none"> • where there is a win-win situation • prime is able to diversify and sub able to be part of market
Services good practice	<ul style="list-style-type: none"> • Purchase specialism for fixed price • Retain control of whole provision • Greater reach • Enriches learning process • Peer development 	<ul style="list-style-type: none"> • Focus on specialist area • Minimum bureaucracy • Additional income stream • Peer development 	<ul style="list-style-type: none"> • Medium risk if not managed • Impact on quality • Not of high importance for sub 	<ul style="list-style-type: none"> • Low risk • Costs vs income • Contract not renewed 	<p>The purchase of services from prime to sub:</p> <ul style="list-style-type: none"> • where there is a specialist need • prime focuses on overall provision • sub focuses on delivering their specialism

Conclusion

This guide has been produced using existing good practice within the post-16 training and education sector and is intended to support providers with their SCM. The diverse needs of learners, employers and the economy require the sector to use the best resources and delivery methods available. Using and sharing good SCM enables the sector to be responsive to needs, continually improve and to act as the catalyst to providing the country's skills infrastructure for economic growth and posterity.

Lessons drawn from the guide to deliver an effective SCM, from procurement to performance, include that the prime should:

- have a dedicated contract team
- before entering into sub-contracting, understand and accept full accountability for any sub-contractor, under the terms of the Agency Funding Rules
- separate procurement for the allocation of provision from purchasing services
- carefully and accurately translate the Agency Funding Rules into any sub-contract arrangement
- before issuing a contract, implement a robust due diligence process that involves a site visit
- formulate risk and contingency plans
- involve and support sub-contractor development, using activities such as SAR and QIP.

Drawing from the guide, in brief, the five key areas for primes and suppliers (sub-contractors) to share in establishing an effective supply chain are:

- 1 Customer demand - satisfaction for customers, employers, learners and the Agency.
- 2 Performance management - reducing risk and improving performance.
- 3 Supplier development - building capacity and capability.
- 4 Added value - maximising government funds for a better learner experience.
- 5 Relationships - sharing good practice so the sector is responsible for itself.

The steps and suggestions shown in the guide have been developed from current practice and provide a logical, systematic approach to SCM. A professional and exemplar approach is best summarised by the SCM flowchart (produced by CITB-ConstructionSkills) - see page 27. It is acknowledged that no single approach meets the diverse needs of the sector and its customers. SCM models can only be successful if the real focus is on the management of relationships in order to achieve the desired outcome for all parties, and most importantly for the end-user (i.e. learner).

This guide should be used with due regard to the **Common Accord** - this has been developed with FE sector practitioners and representatives and marks a change in approach to SCM.

Under the SCM Common Accord, both parties will have shared responsibilities:

A key driver is the learner, and forming a common accord with guiding principles such as:

- contracting
- supply chain development
- learner experience
- value for money.

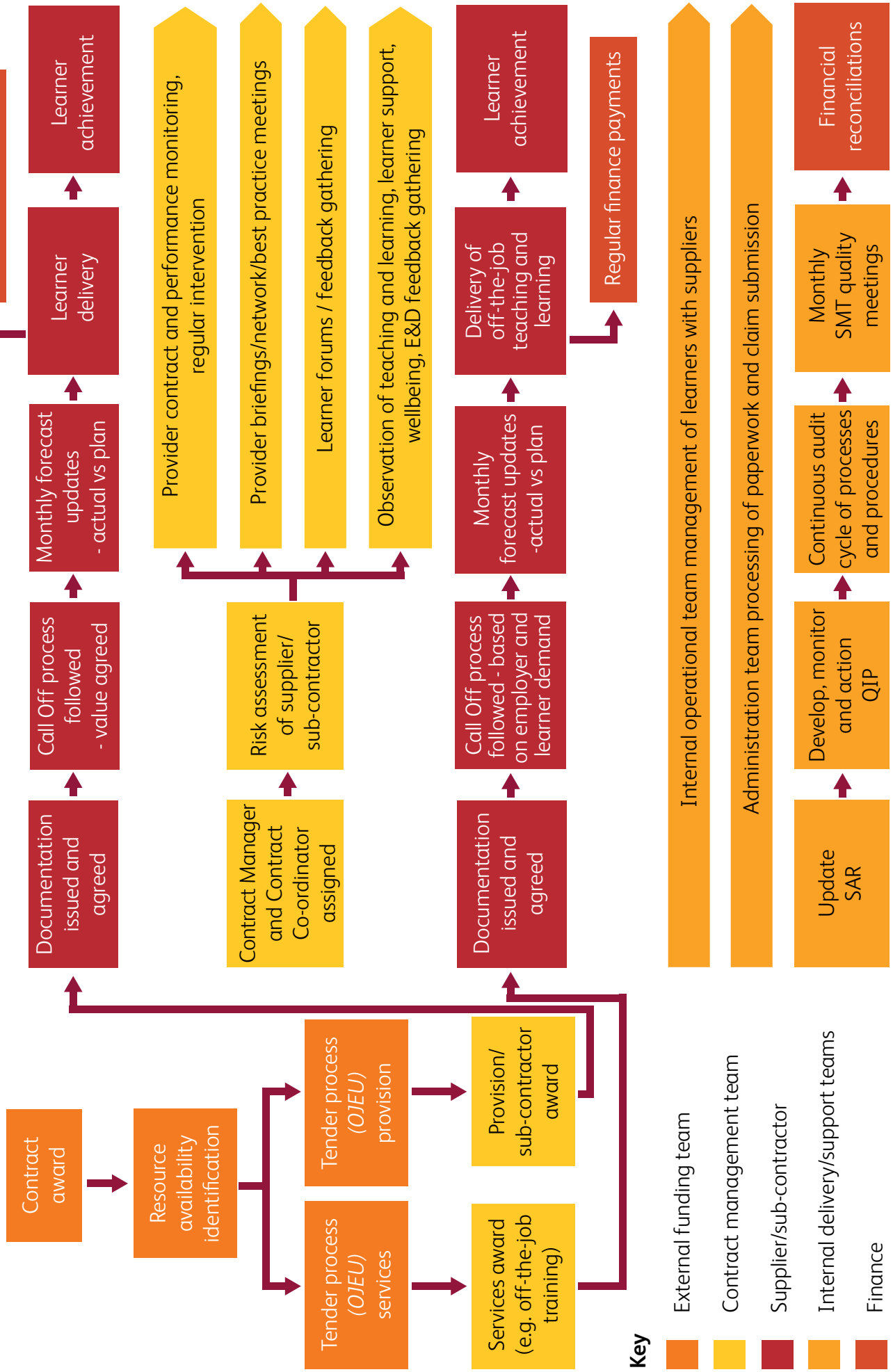
These are underpinned by shared values:

- ethics and confidentiality
- mutual respect
- honesty and transparency
- clear expectations.

One final reminder is that primes hold full accountability for the delivery of their contract and this cannot be assigned to their suppliers (sub-contractors). Both the prime and their suppliers should always refer to the Agency Funding Rules documents for any future updates, see: <http://skillsfundingagency.bis.gov.uk/providers/fundingdocuments/>

In conclusion, the sector's positive approach to SCM is demonstrated by openly sharing good practice to continually improve and reduce risk, and drive out poor practice. This approach may be better termed for our sector as '**demand-led chain management**', to reflect the sector's specific market drivers (i.e. the needs of employer and learners), and not the needs of the sector's providers (prime and suppliers).

SCM Flowchart CITB-ConstructionSkills (2012)



References, links and information in Supply Chain Management Resource Bank

References

Department for Business, Innovation & Skills (November 2010) *Investing in Skills for Sustainable Growth*.
<http://www.bis.gov.uk/assets/BISCore/further-education-skills/docs/S/10-1272-strategy-investing-in-skills-for-sustainable-growth.pdf>

Chopra, S. and Meindl, P. (2003) *Supply Chain*, 2nd edition, Upper Saddle River, NJ: Prentice Hall, Chapter 1.

Lambert D. M., Stock J. R. and Ellram L. M. (1998) *Fundamentals of Logistics Management*, Boston, MA: Irwin/McGraw-Hill, Chapter 14.

Useful links

LSIS - Sub-contracting toolkit and supporting information:

<http://www.excellencegateway.org.uk/node/2945>

<http://www.lsect.co.uk/documents/Sub-contracting-toolkit-19-12-10.pdf>

Skills Funding Agency - funding documents, rules and supporting information:

<http://skillsfundingagency.bis.gov.uk/providers/fundingdocuments/>

<http://skillsfundingagency.bis.gov.uk/providers/fundingrules/>

<http://skillsfundingagency.bis.gov.uk/providers/allthelatest/>

Skills Funding Agency - Subcontractor Register:

<http://skillsfundingagency.bis.gov.uk/providers/Subcontracting/>

Skills Funding Agency - Register of Training Organisations and Due Diligence Assurance gateway:

<http://skillsfundingagency.bis.gov.uk/providers/programmes/register/>

Skills Funding Agency - MCLs:

<http://skillsfundingagency.bis.gov.uk/providers/Minimum+Contract+Levels/>

Department for Work and Pensions - Merlin Standard™:

<http://www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/merlin-standard>

The Official Journal of the European Union:

<http://www.ojec.com/>

Information in Supply Chain Management Resource Bank

National provider case study and resources:

- CITB-ConstructionSkills
<http://www.aelp.org.uk/supply/details/1-national-provider-case-study-and-resources/>

Local provider case studies and resources:

- KEITS Training Services Ltd
<http://www.aelp.org.uk/supply/details/2-local-provider-case-studies-and-resources/>
- West Berkshire Training Consortium (WBTC)
<http://www.aelp.org.uk/supply/details/2-local-provider-case-studies-and-resources/>

Consortia provider case study and resources:

- BCTG (Black Country Training Group)
<http://www.aelp.org.uk/supply/details/3-consortia-provider-case-study-and-resources/>

FE college provider case studies and resources:

- North Warwickshire & Hinckley College
<http://www.aelp.org.uk/supply/details/4-fe-college-provider-case-studies-and-resources/>
- West Nottinghamshire College (WNC)
<http://www.aelp.org.uk/supply/details/4-fe-college-provider-case-studies-and-resources/>

Third sector provider case study and resources:

- Enable
<http://www.aelp.org.uk/supply/details/5-third-sector-provider-case-study-and-resources/>

Training and Enterprise Council Quality Assurance: Supplier Management (TQA:SM) - summary

<http://www.aelp.org.uk/supply/details/training-and-enterprise-council-quality-assurance/>

Merlin Standard™ - summary

<http://www.aelp.org.uk/supply/details/7-merlin-standard-summary/>

Risk assessment and performance management - examples of tried and tested methods

<http://www.aelp.org.uk/supply/details/8-risk-assessment-and-performance-management-exa/>

Skills Funding Agency *Supply Chain Survey* (2012)

<http://www.aelp.org.uk/supply/details/9-skills-funding-agency-supply-chain-survey-2012/>

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- First4Skills - Hayley Whitemore, Head of Contracts
- KEITS Training Services Ltd - Jane Clarke, Head of Quality
- North Warwickshire & Hinckley College - Kelly Baker, Contracts Manager, and Marie Caves, Procurement Manager
- West Berkshire Training Consortium (WBTC) - Matt Garvey, MD
- West Nottinghamshire College (WNC) - Graham Howe, Director/VP



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