



The Scottish Parliament
Pàrlamaid na h-Alba

EDUCATION AND SKILLS COMMITTEE

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Dear Jamie

The Education and Skills Committee held an evidence session on Wednesday 7 September 2016 on skills and this included a discussion on the Apprenticeship Levy. The Committee agreed that it wished to highlight to you the concerns raised during this session and I attach the relevant extract of the *Official Report* for your information. Particularly the Committee wished to highlight the level of uncertainty that exists on how the levy will operate and the need to get more clarity and to provide assurances to businesses and other stakeholders in the limited time available before the levy is introduced.

I appreciate from your letter dated 30 June 2016 and the evidence provided in Committee that the Scottish Government is currently undertaking work in this area. Specifically I know you have already consulted widely and so some of these issues will doubtless be familiar. However, the level of uncertainty and the limited time to address this was notable and could usefully be highlighted in your discussions at a UK level.

Yours sincerely

**JAMES DORNAN MSP
CONVENER**

Extract from the Education and Skills Official Report – 7 September 2016

Liz Smith:

I want to ask about the apprenticeship levy. My feedback from businesses is that they very much hope that it is an additional source of income and that it correctly dovetails with lots of the other programmes that are already happening. I think that the Scottish Government and the UK Government are consulting about how that money should be allocated. What do you think a good allocation would be, in terms of how it should be done rather than the amount? I note that the Scottish Government has said that it is possible that the levy undermines the discrete Scottish aspect of apprenticeships. Will you comment on that?

Gordon McGuinness:

We have met the Minister for Employability and Training, Jamie Hepburn, a few times now in relation to business consultation, so there has been significant consultation at the Scottish Government level, which has been appreciated by individual organisations and by representative organisations such as the Confederation of British Industry Scotland. I think that there is frustration at the Government level about the lack of detail on how funds will come to Scotland and whether they will be ring fenced or part of the Barnett formula. The Scottish Government's consultation exercise, which closed last week, prompted six questions that were broadly around whether the Government's ambition of 30,000 MAs by 2020 was the right level or whether there should be more or fewer, and whether the foundation apprenticeships should be part of the levy system. There are also questions around more flexible use of the levy in terms of workplace training and support outwith the apprenticeship programme and around whether some of the funds should be used to support young people into work through employability programmes.

We have not had the outputs from that exercise, but we have heard concerns from employers who operate both north and south of the border who want a programme of activity that is not too dissimilar north and south of the border. You asked about the English system, and England has set a target of 3 million apprentices over the course of the UK Parliament. The equivalent figure for Scotland if it followed that target in percentage terms would be about 60,000 apprentices. Our gut feeling is that that would be too many and would be just about chasing numbers.

We have an expansion plan to take the number to 30,000 apprenticeships by 2020, which involves undertaking a fair amount of work with industry bodies and looking at sectors on a regional basis. For example, we can identify clusters of engineering companies, and the percentage of apprentices in that area is lower than we would have anticipated. So it is very much about having a targeted marketing campaign, and off the back of things like foundation apprenticeships we have a growth programme that will complement that.

I do not know whether I am fully answering your question. There is a lack of detail at present. There is a recognition that the UK Government has said that a pound in will mean a pound out in terms of an employer, but there are some fairly complex structures appearing in terms of a levy payer wanting to use that within their supply chain. It comes across as potentially fairly bureaucratic.

Liz Smith:

What is your understanding of the timescale for a decision being made about the allocation?

Gordon McGuinness:

I imagine that it would be best to ask a Government official about the timescales. The consultation exercise has been concluded and I understand that the announcements will be made around November, but that will be for the minister to decide.

Daniel Johnson:

It is good to hear that there is widespread recognition of the importance of apprenticeships. Last week, the committee's visit to Stirling Community Enterprise demonstrated to Fulton MacGregor and me the opportunities that apprenticeships can provide when they are delivered well.

However, we are only eight months away from the introduction of the apprenticeship levy and, despite all the good work that has been done in Scotland, I suggest that you are being slightly diplomatic in the language that you use to describe employers' reaction to the levy, Mr McGuinness. Over the summer, employers have said to me that there needs to be clarity and that there are serious risks. Are we ready for the apprenticeship levy? If we are not, what must happen to ensure that we are ready?

Gordon McGuinness:

Government ministers themselves would express a degree of frustration about the amount of detail that is available at the UK level. On top of that, a number of changes have been made to the UK Commission for Employment and Skills that undermine the support structures around things like national occupational standards, which have greater importance in Scotland because much of the Scottish Qualification Authority's portfolio is built on national occupational standards, and those structures were designed at a UK level. Colleagues have been taking action to address that.

If an engineering company makes a commitment to an apprenticeship, that is a four-year commitment to take a young person through their apprenticeship, and there are issues about what the future financial landscape will look like. That is not within our control, and at this stage it appears not to be within the control of the Scottish ministers, who are waiting for information from the UK Government.

Daniel Johnson:

I put the same question to Mr Smith, Mr Williams and Ms Martin. Mr McGuinness is sitting in the middle and waiting for things to happen. What is your feeling about the risks and opportunities from the apprenticeship levy and what needs to happen between now and April?

Gareth Williams:

The majority of our members would not be opposed to the principle of an apprenticeship levy. The biggest concern has been around the lack of clarity, principally at the UK level. There is a degree of sympathy with the Scottish

Government's position. That said, earlier this year, the Scottish Government went around and spoke to a couple of hundred businesses, and the outcome of that was not clear in the consultation that was issued over the summer, to which businesses had only a very short time to respond. That is another concern.

Gordon McGuinness has highlighted some of the issues, including the concern about the Scottish model and how the funding will come back to Scottish businesses, the cross-border issues for businesses, and the impact on existing levies such as the Construction Industry Training Board levy and the industry support for the continuation of those. There are also concerns around the thresholds and whether they will be linked to inflation or changed if there are continuing pressures on public sector budgets, which could bring a lot more businesses into the system.

We have been picking up issues for the public sector, sectors of the economy that have different training models, such as the legal sector, businesses that place a lot of temporary workers in other businesses and therefore do not necessarily offer their own training schemes, and businesses whose work and workforces fluctuate—the point in the year that is chosen for making the calculations might draw some such businesses into the system, and ways of addressing that would have to be found.

I return to the point that the lack of clarity is the overriding concern. We understand that significant amounts of money will come to Scotland. As has been said, businesses want to have a strong voice in how that is spent and want strong evidence of additionality in relation to the plans that were in place.

Helen Martin:

We see the levy as a tremendous opportunity. We support its introduction because it is important that employers take a strong role in providing skills in their workplaces, and that role has been lacking to an extent. We can already see that the levy is increasing employers' interest in getting involved in training and skills policy and in having a strong voice in how the money might be spent.

The levy provides a really good opportunity to put in place proper infrastructure for the training and skills environment, as envisaged by the Wood review. The SAAB—I think that the initials stand for the Scottish apprenticeship advisory board—will be crucial and will provide an opportunity for employers and unions to sit together and talk about what apprenticeships should look like and what the numbers in different sectors should be. There was no opportunity for such discussion previously because the level of buy-in from employers was not the same; now, the level of interest is higher.

The system has potential dangers. For example, will it just suck up employers' training budgets and mean that being an apprentice becomes the only training and lifelong learning that is available to employees? We must guard against that, because apprenticeships cannot be the only training that we offer; there must be a good range of options for a range of workers who are in a range of circumstances.

Whether everything is funded from the levy, whether the levy does a distinct thing and other money is drawn down for lifelong learning and other training or whether employers are expected to provide such training in addition are all up for discussion. A lot of the decisions about where the lines are drawn concern the level of funding

that we will receive from Westminster. Until the question about funding is answered, it will be difficult to understand how much the levy will provide in the education and training system and whether it will stretch to foundation apprenticeships, unemployed workers and the workplace as a whole. All that depends on the amount of money that is in the system.

We are clear that we need a training and skills system that can do all the things that I described and which fits together nicely, and the levy must play a role in that. In an ideal world, we will meet the challenge and maintain the best aspects of the Scottish system, which relate to the quality of apprenticeships, the status of apprentices as paid employees, employer and union involvement and the industry standards that underpin all the training. However, serious technical issues need to be resolved.

Mark Smith:

Clarity would be nice. The sooner we know the position, the sooner we can make plans and provision. We know what the levy will cost us, so we know that a cash amount will go out. We also know that we will not be able to reclaim a great deal of that; it will go and we hope that it will feed necessary skills development and evolution. That is okay—we are comfortable with that and we think in principle that it is a good thing.

We are cautious of chasing volume—the idea that we should just go for a target and have however many tens of thousands or hundreds of thousands of apprenticeships. They must not be in spaces that are not needed and do not meet the demands of business and employers. What are we training our young people for if the apprenticeships are not for real jobs with decent wages at the end?

Nobody wants to pay the same money twice. We already invest a lot in pre-employment training. We invest in our own trainees and graduates because we need their skills. We get that, but my fear is that someone in another part of the fiscal process will say, “We are paying this money every year. Why are we paying for all those trainees and interns? The money is going out on that levy, so justify why you spend it.” Currently, we have a strong business case for why we spend the money in the way that we do to bring young people in, and long may that continue.

There is a lot of detail. We would like some clarity. I am looking at how we can align our internal programmes to an apprenticeship framework in Scotland and England. The majority of our training, development and recruitment is still here and that will continue, so we need to align it to what is available in Scotland. For us, it would be ideal to get the greatest flexibility possible through the levy funds. We would love to get back out every pound that goes in. I do not think that that will happen, but it would be great to have the maximum flexibility in how we claim those funds.

Daniel Johnson:

Many different aspects of the matter need to be considered and clarified, and one of them is age. It is absolutely right that we ensure that our young people have the right skills for the world of work but, as we see in the north-east, big economic changes can happen. I come from the retail industry, which has seen huge technological change. We need to deal with that sort of thing. Is there a danger that, if we overfocus the levy and the wider skills system on young people, we will fail to build a

system that can cope with such economic changes and the reskilling that we will need to do in the future?

Mark Smith:

That is absolutely right. We have done a lot of work supporting veterans into the workplace. The focus on early careers does not necessarily relate to the young early career: it can be somebody returning to the workplace—for example, a parent or carer. That is about tapping into the necessary skills. We do not want to put a cap on who we work with and where we draw our talent from. We have seen people coming out of the forces with amazing technical ability that we need. Our investment 2020 programme has taken in people who have rejoined the workforce after 12 years raising children. It is important to have the right skills and training capability to maximise those people's potential. The focus for us has been on youth but it is by no means the only focus.

Tavish Scott:

I take your point about clarity but are you saying that, when it is announced how the levy will work, you will lose X amount of money into the system, it will come back to Scotland and you want the Scottish Government to put all of that into training and skills but not just into the narrow measure of modern apprenticeships? Am I right about that?

Mark Smith:

That would be our preferred outcome. My understanding is that the English system has a kind of digital voucher and it is run through the pay-as-you-earn system so it is possible to see how much goes out every month. I think that employers can claim monthly—although that might not be technically correct. A system that allows us the maximum flexibility to claim for the training of our people would be good.

Tavish Scott:

Gareth Williams, as an industry representative, is that a fair perspective on how Scottish business would like to maximise what goes into the system and, therefore, what it gets out of it?

Gareth Williams:

It is fair. There is a recognition that not all businesses will be able to get everything out, but they still want to influence how the money is spent to maximum benefit.

Tavish Scott:

Helen Martin, you made some interesting points about the potential conflict if the policy is narrowly focused, as it could be south of the border—again, we do not yet have clarity. I asked earlier about developing Scotland's young workforce. It seems to me that there would be a straight-up clash if we had a narrow focus that took a lot of money out of Mark Smith's business, as he has just reflected, and did not allow us to continue developing Scotland's young workforce. Is that a fair observation?

Helen Martin:

It depends on how the system is designed. One of our challenges is how we make it align with the other skills policy requirements in Scotland.

There is also the opposite challenge. If we design the scheme too broadly and people are allowed to do pretty much anything with the money, does that undermine the entire concept of an apprenticeship? We have been very tight in Scotland about what we consider an apprenticeship. It has been based on industry standards and it has been tightly designed. In England, the concept is already much looser.

It is not beyond our ability to marry all those things together, but we have to recognise that there are going to be tensions within the systems. There are principles that we are trying to defend as we try to design a system that actually works for the Scottish economy. We have the opportunity to get into the idea of creating an infrastructure that allows us to think about what we need for the Scottish economy and to get away from an arbitrary, target-driven process involving a top-down policy lever.

We will finally have employers and unions around the table together, so they can sit and talk about skills needs and skills development, and they can design solutions and pipelines that work sector by sector, rather than necessarily always having to be driven from an outside, Government forum.

Tavish Scott:

None of you are arguing that we have to reinvent the whole wheel again, are you?

Helen Martin:

No.

Tavish Scott:

The last thing we need to do is to rip the whole lot up and start again, just because there is a new thing called the apprentice levy. I still think that developing Scotland's young workforce is a great programme. We should be doing an awful lot more of it. Is it your collective view—I am sure that SDS takes this view—that we should not reinvent it all but that, if we are going to have some new moneys, they should be concentrated on the programmes that are working effectively? Fine—I see you all nodding.