



The Scottish Parliament
Pàrlamaid na h-Alba

EDUCATION AND SKILLS COMMITTEE

AGENDA

14th Meeting, 2016 (Session 5)

Wednesday 7 December 2016

The Committee will meet at 10.00 am in the Robert Burns Room (CR1).

1. **Work programme (in private):** The Committee will consider its work programme.

Not before 10.30 am

2. **Enterprise and Skills Review:** The Committee will take evidence from—

Keith Brown, Cabinet Secretary for Economy, Jobs and Fair Work, Hugh McAloon, Head of Youth Employment, and Paul Smart, Head of Colleges, Young Workforce and SFC Sponsorship Division, Scottish Government.

3. **Review of Evidence (in private):** The Committee will consider the evidence heard earlier in the meeting.

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The papers for this meeting are as follows—

Agenda item 1

PRIVATE PAPER

ES/S5/16/14/1 (P)

Agenda item 2

SPICe Briefing

ES/S5/16/14/2



Education and Skills Committee

14th Meeting, 2016 (Session 5), Wednesday, 7 December 2016

Enterprise and Skills Review

Introduction

On 7 December the Education and Skills Committee will take evidence from Keith Brown MSP, Cabinet Secretary for the Economy, Jobs and Fair Work. The focus of the evidence session is the Enterprise and Skills Review (“the review”); specifically exploring the implications of the review for the future functioning of Skills Development Scotland (SDS) and the Scottish Funding Council (SFC). The Committee agreed to hold this session following its evidence session with the [SFC on 16th November](#). The Phase 1 report on the review is available [here](#) and a full list of the ‘actions’ set out in the phase 1 report is provided at Annexe A.

Background

During her ‘[Taking Scotland Forward](#)’ speech in May 2016, the First Minister announced an end-to-end review of the “roles, responsibilities and relationships” of the enterprise, development and skills agencies operating in Scotland. The review was to cover:

“the full functions of Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland and the Scottish Funding Council [in order] to ensure that all of our public agencies are delivering the joined up support that our young people, universities, colleges and businesses need”.

The review was led by Cabinet Secretary for Economy, Jobs and Fair Work, Keith Brown MSP. The [terms of reference](#), published on 15 June 2016, reaffirm the Scottish Government’s ambition to see Scotland “in the top quartile of OECD countries for productivity and wellbeing... achieving this objective will require a transformational step change in our performance across a range of outcomes”.

During a debate in the Parliament on [26 October 2016](#), the Cabinet Secretary for the Economy, Jobs and Fair Work announced that the second phase of the review would start on 1 November 2016. It is expected to report in late March or early April 2017. The Cabinet Secretary also confirmed that the phase 2 recommendations will set out a programme of work to be undertaken during the current session of Parliament: “I anticipate that some actions will be prioritised for quick delivery while more complex changes will take longer to fully implement”.

Theme 1: The Scope and Remit of the Review

Possible themes for discussion:

- How confident the Scottish Government is that the views heard during the relatively short consultation period are representative of the various people and organisations with an interest in / served by enterprise and skills agencies.
- Detail on the specific focus of activity and actions being pursued through this second phase of the review.

The Scottish Government ran [a formal call for evidence](#) between 15 July 2016 and 15 August 2016. Over 320 responses were received, with 126 being published on the Scottish Government's [consultation hub website](#).

In addition to the formal call for evidence, the Scottish Government commissioned an external consultant to speak to service users across Scotland. Its [report](#) noted that 63 individuals participated in a series of workshops and one-to-one interviews, including 20 businesses, 21 learners and 22 educators.

Summary of Responses

A [summary of consultation responses](#) was compiled by the Scottish Government. It highlighted the following “key messages” about the whole system:

- **A “cluttered landscape”** – a lack of clarity on roles and responsibilities and a perception that this is “leading to duplication and suboptimal use of resource in economic development and skills provision”:

“...respondents felt that a refreshed strategic focus with a single vision, goals and shared ownership could foster more effective collaboration.”
- **Difficult to access support** - a number of business and organisation end users expressed that it was difficult to understand the full system offer across enterprise and skills.
- **Tension between national and regional approaches:**

“with the notable exception of HIE (and to a lesser extent SFC) whose local knowledge and expertise were seen as a real strength, there was concern that a one-size fits all national approach was inflexible to local economic conditions”.

“This tension was also felt in relation to decision making around skills initiatives which were felt to not always take account of regional labour market priorities or the practicalities of delivery in remote rural areas with dispersed populations”.
- **Lack of partnership working** – Some respondents believed that too many organisations are competing across the same policy areas and for the same client groups (whether businesses or individuals).

In addition to these whole system issues, some sector specific points are worthy of note:

Regarding **SDS**: “There were good examples of partnership working and delivery in relation to Modern Apprenticeships, Careers Advice and Skills Investment Plans (SIPs).

However, some felt there was a need for more collaboration and better transparency in relation to the development of new products.”

Regarding **the SFC**: “There was strong support for SFC particularly from educational institutions who responded to the review and a number of specific projects were highlighted as good practice. Specifically, there were a number of positive descriptions of their work on innovation, and their partnership working around Outcome Agreements.”

Progress in Two Stages:

The Cabinet Secretary for the Economy, Jobs and Fair Work is chair of the [Ministerial Review Group](#) (MRG). The MRG includes individuals drawn from business, business organisations, NUS Scotland, COSLA, the STUC, colleges and universities¹. The intention is that the MRG: “will play a vital role in ensuring that the enterprise and skills review is robust, produces sound and evidence-based recommendations, and is driven forward with energy and creativity”.

During MRG meetings on [17 and 31 August 2016](#), the MRG agreed a “two-phase” approach to publishing the findings and recommendations of the review. The Cabinet Secretary offered the following explanation for taking this approach:

“There is no question but that the European Union referendum result has changed the context since we started the review and, to take account of Brexit, we have to build fully on stakeholder views. In light of ministerial review group views, expressed through that forum, ministers have decided to take forward the review in two stages. Stage one concludes shortly and will set out the key recommendations for change across a number of areas. Phase 2 will take forward consideration of the recommendations with key partners.

[Scottish Parliament Official Report, 15 September 2016](#)

¹ A full list of the members of the MRG can be found here:
<http://www.gov.scot/Topics/Economy/EntandSkillsreview/entandskillsmembership>

Theme 2: Implications of Phase 1 Review Proposals

Possible themes for discussion:

- The rationale for replacing individual level boards with one single national board; and action to mitigate any risks that come with this move.
- How the SFC and SDS can retain their legal status as organisations separate from government once individual organisation level boards are abolished.
- Whether the establishment of a new statutory board will require primary legislation.

The phase 1 report identifies the current strengths and successes of Scotland's enterprise and skills agencies, as well as highlighting challenges to be overcome.

Five themes frame the 'actions' set out in the phase 1 report:

- One Scotland: stronger governance of a coherent system
- National and local enterprise and skills delivery
- An open and international economy
- Innovation
- Skills provision and economic success

A full list of the 'actions' set out in the phase 1 report is provided at Annexe A.

Since publication of the phase 1 report, questions have arisen about the implications for individual agencies of the proposal to create a new Scotland-wide statutory board to co-ordinate the activities of the publicly funded skills agencies in Scotland.

A [BBC news article](#) published on 10 November 2016 highlighted that, through the creation of a single national skills board, individual agency boards would be abolished. At that time, "the boards [had] not been formally notified of this but [had] been told in private meetings".

Some clarity as to the Scottish Government's plans was provided by Deputy First Minister and Cabinet Secretary for Education and Skills, John Swinney MSP, during [Portfolio Questions](#) on 23 November 2016:

"Phase 1 of the enterprise and skills review recommended the creation of a new single strategic Scotland-wide statutory board to co-ordinate the activities of Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland and the Scottish Further and Higher Education Funding Council. Our intention is that, once established, the overarching board will replace individual agency boards while retaining the separate legal status of each of the bodies."

Theme 3: A Single Skills Board

Possible themes for discussion:

- How both the governance and operation of the separate organisations will be managed once the single board has been established
- The steps being taken to ensure that the SFC is not effectively closed down by the removal of the governing body.
- The measures being taken to clarify the specific remit and function of the new single board, and the limits of its responsibilities.

The above highlights issues about the future governance arrangements affecting all agencies included in the review. However, it is not clear at present what plans may be put forward for any merger or reform of the functioning of the agencies themselves - as opposed to the boards that govern their work.

In early discussions at the [Economy, Jobs and Fair Work Committee](#) meeting on 1 November 2016, the discussion of the review focused on the continued functioning of each of the different agencies with a single statutory board coordinating the skills activities of each. This approach was supported by all those present, although the detail of how this would work in practice is still to be developed.

Universities Scotland in its [supplementary evidence](#) to the Education and Skills Committee meeting on 16 November 2016 pointed out its main concern regarding the governance of the SFC as a result of the proposals set out the phase 1 review report:

“The proposal to remove the boards of the existing statutory bodies covered by the Enterprise & Skills Review raises a fundamental question about whether these bodies would in fact continue to exist. Under the Further and Higher Education (Scotland) Act 2005, the SFC as an entity is the members of its board; the staff are essentially a secretariat to the board. So the abolition of the board would, at first sight, appear to mean the abolition of the SFC as an entity unless alternative statutory provision is made.”

It further raises concerns about who the chair of the new single skills agency board will be. It notes that the chair of this board will be “a highly influential position”. As such, questions about the process for appointment of that role and the skills required to fulfil it are needed.

If the position, given its prominence, should be taken by one of the Scottish Ministers, Universities Scotland reiterates its concern that this could be seen as direct political direction over higher education institutions, so leading to a loss of autonomy and potential for reclassification of HEIs as public bodies.

Further, as the board will have responsibility for a wide range of aspects of the skills agenda, there are concerns highlighted about the risk that some areas will take prominence over others:

“There will be challenges in ensuring that the new ‘super-board’ has the capacity and expertise for its very extensive role, however good and diverse the individual

members are. A single board of reasonable size will not, in itself, have the breadth of experience and expertise represented on the existing boards. It is also likely to struggle with the cumulated volume of business that the current boards deal with. This implies that there will need to be substantial delegation to committees, so that only genuinely strategic issues are escalated to the ‘super-board’”

The issues raised by Universities Scotland indicate that there remain numerous practical issues that need to be resolved through the discussions and plans pursued through phase 2 and beyond.

Theme 4: Institutional Autonomy

Possible themes for discussion:

- Clarity as to whether there is recognition of the value of organisations like the SFC operating at arms-length in order both to provide shape the direction of policy and offer advice to the Scottish Government.
- The practical steps that the Scottish Government intends to take to ensure that universities remain free of direct government control as a result of the removal of the SFC board.

At the Education and Skills Committee meeting on 16 November 2016, various Committee members raised concerns about the extent to which the SFC is operating sufficiently separately from, and so playing its role as an NDPB to offer advice and challenge to, the Scottish Government. The SFC said that its advisory role is one that is conducted in private. For some members, this highlighted a lack of transparency in the role played by the SFC in steering the direction of post-16 education policy and acting as a challenge function as opposed to simply implementing policy direction shaped by the Scottish Government through the annual Letter of Guidance from the Scottish Ministers. Members also raised concerns that a perceived closeness to Government can diminish the extent to which SFC is accountable to and reflective of the priorities of higher and further education institutions and students.

The BBC article, cited above, specifically notes concerns raised by Universities Scotland about the risk to the autonomy of universities if the current SFC board is absorbed into a single overarching skills board. Key to the concerns raised is that universities may be viewed as having sufficient government involvement in their activities to warrant their reclassification from private “non-profit institutions serving households” to instead be classified as “general government” public sector bodies.² This is the change that affected colleges in 2014, leading to changes in the ability of colleges to hold cash reserves from one financial year to the next.

This issue was discussed at the [Education and Skills Committee](#) on 16 November 2016:

² “Non-profit institutions serving households” is how third sector organisations are classified. In National Accounts, these are part of the private rather than the public sector. [Link to ONS content on classification process used in UK National Auditing](#)

“Daniel Johnson: Given [the] very large hurdle that has been placed on the college sector, are you concerned by recent reports that your board may be merged into the overarching board for enterprises, which may be directly chaired by a minister? To your mind, could that put universities’ status at risk? Would they be liable to become classified as public sector bodies? What would that do to the £2.5 billion that universities currently hold in reserve and to their ability to invest?”

“Dr Kemp: The issue of universities being classed as public bodies is one for the Office for National Statistics and it is looking at that. I would not want to speculate on how likely that reclassification is, but there would be a number of choices to be made if the ONS decided that universities are part of the public sector. The Government, or others, could take a number of steps to move universities out of the public sector and change the degree of control over them, whatever might lead the ONS to believe that universities are part of the public sector. I would expect the Government to look at that issue in phase 2 of the enterprise and skills review. However, there would be choices to be made if the situation arose.”

Universities Scotland in its supplementary evidence to the ESC notes that, if the SFC board is abolished, this poses a question as to who the SFC’s employer will be. With this come important change affecting both the SFC and ultimately impacts on institutional autonomy:

“...there would be implications for university autonomy if the SFC chief executive and staff became employees of the Scottish Government, since through the outcome agreement process this would essentially mean that the Scottish Ministers were, through their staff, setting the priorities for individual institutions.”

At [Portfolio Questions](#) on 23 November 2016, Iain Gray asked the Deputy First Minister and Cabinet Secretary for Education and Skills, John Swinney MSP, about the issue of university autonomy given the changes proposed in the current enterprise and skills review, specifically seeking reassurances that the Scottish Government would “maintain the Scottish Funding Council and thereby the autonomy of our higher education institutions”.

In response, the Deputy First Minister stated:

The autonomy of the higher education institutions is derived from the status of the higher education institutions... Of course I am aware of the unease within the universities - I read the newspapers and watch BBC Scotland. However, I am also absolutely determined that our university sector will be an autonomous sector that is able to exercise the same academic independence that it has today. We have to handle with great care the issues in connection with the board of the Scottish Funding Council in order to ensure that we can protect the independence of the university sector and guarantee that there is no reason for the sector to have the concerns that it currently has.

When pressed by Liz Smith MSP on the question of government control over Scottish higher education institutions, the Cabinet Secretary said he was “happy to rule out Government control of the universities. I can give that absolute cast-iron commitment to Parliament today; there will be no Government control of the universities”

Suzi Macpherson & Greig Liddell
SPICe Research
1 December 2016

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.

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Annexe A: 'Actions' listed in the Phase 1 Enterprise and Skills Review Report³

One Scotland: stronger governance of a coherent system

1) To bring greater integration and focus to the delivery of our enterprise and skills support to businesses and users of the skills system, we will create a new Scotland wide statutory board to co-ordinate the activities of HIE and SE, including SDI, SDS and the SFC.

2) To support the new board, we will review existing data and evaluation functions to further align our enterprise and skills support and to ensure robust evaluation of activity and impact.

National and local enterprise and skills delivery

3) Recognising the different social, economic and community development challenges facing the Highlands and Islands, we will maintain dedicated support which is locally based, managed and directed by HIE.

4) Recognising the unique challenges faced in the region, we will create a new vehicle to meet the enterprise and skills needs of the South of Scotland. This will be accountable to the new Scotland-wide statutory board alongside our other enterprise and skills bodies.

An open and international economy

5) In order to bring greater coherence as we step up the pace of delivery of our Trade and Investment Strategy through activity such as the establishment of a new Board of Trade, the appointment of Trade Envoys, the establishment of an Innovation and Investment Hub in Berlin, and the doubling of SDIs presence across Europe, we will ensure a much stronger focus on co-ordinating international activity across the public and academic sectors to deliver maximum benefit for Scotland.

6) We will consider the role, position and governance of SDI and its possible establishment as a distinct and separate organisation under the new Scotland-wide statutory board delivering a broader range of international activities and support.

Innovation

7) We will review, streamline and simplify the innovation support ecosystem, connecting programmes, funding and delivery mechanisms. We will ensure that more businesses in Scotland increase their level of innovation to realise their major growth ambitions by implementing an innovation action plan that will be published by end of November.

³ Taken from the phase 1 report: <http://www.gov.scot/Resource/0050/00508466.pdf>

Skills provision and economic success

8) We will align the functions of our learning and skills agencies to better join up how education services and training are planned and provided to learners and employers.

9) We will conduct a comprehensive review of the Learning Journey focused on sustained employment, with significantly enhanced use of labour market information in skills planning at its heart.

10) We will review the effectiveness of our investment in learning and skills to ensure we have the right balance of provision across age groups and sectors and to maximise our contribution to productivity and inclusive growth.