

Scottish Government Response to the UK Government Apprenticeship Levy

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The UK Government will introduce the UK Apprenticeship Levy in April 2017. As a result, employers across private, third and public sectors will be required to pay 0.5% of their payroll in excess of £3 million pounds to Her Majesty's Revenue and Customs.

The Apprenticeship Levy is a new way of the UK Government raising funds directly from larger employers, a policy they announced in 2015 without consultation with the Scottish Government or employers, despite apprenticeship policy being a fully devolved matter. While the Apprenticeship Levy will be a new tax on employers, its proceeds will largely be replacing existing apprenticeship funding in England, of which Scotland will receive a proportionate share.

While the levy will result in a small increase in the funding we received from the UK Government previously in relation to apprenticeship activity, the fact that the public sector is required to pay will reduce Scottish Ministers' spending power by £30m in 2017-18. This is against the backdrop of wider austerity measures being imposed by the UK Government resulting in continued reductions in budgets for public services and a failure to revive the economy.

From the outset the Scottish Government has undertaken extensive engagement and consultation from employers to understand the impact that the levy will have, but also how they would like Scottish Ministers to respond.

Following the conclusion of our recent consultation we published the independent analysis of the responses which showed broad employer support for all of the options we consulted on. This report now sets out how we plan develop a distinctly Scottish approach to apprenticeships and wider skills development and drive closer engagement with industry in our efforts to enhance productivity and economic growth in 2017-18 and beyond.

A handwritten signature in blue ink, appearing to read 'Jamie Hepburn', with a stylized flourish extending to the right.

JAMIE HEPBURN

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Introduction

In July 2015 the UK Government announced its plans to introduce a UK wide Apprenticeship Levy from April 2017. Employers will pay 0.5% of their annual pay bill in excess of £3m through the PAYE system. Those with an annual paybill of £3m or less will be exempt. The Levy will apply to employers in the public, private and third sectors.

The UK Government took this decision to introduce the levy without any prior consultation with the Scottish Government or indeed employers. While training levies and their collection are a matter reserved to the UK Government - skills policy including responsibility for apprenticeships is a fully devolved matter.

The UK Government will use the funding generated through the Levy to support its commitment to deliver apprenticeships in England during the lifetime of the current UK Parliament in addition to allocating a share of the Levy to each of the Devolved Administrations.

On 14 November 2016 the UK Government announced the Scottish Government's settlement from the UK Apprenticeship Levy. This is set out below.

	2017-18	2018-19	2019-20
Population share of levy funding (£m)	221	230	239

What the UK Government announcement did not make clear was that this is not £221 million of additional money for Scotland, but largely replaces what the Scottish Government would have previously received as a traditional share existing UK Departmental apprenticeship spend.

As in previous years the Scottish Government will use this funding, as part of the overall Scottish Budget, to support our extensive skills, training and employment provision, including our Modern Apprenticeship programme.

In direct response to the views of employers in Scotland, and reflecting on the Apprenticeship Levy consultation responses we received, the Scottish Government will deliver a range of interventions that further support skills, training and employment in Scotland. In particular we will:

- continue to expand the number of Modern Apprenticeship opportunities as part of our planned growth to 30,000 new starts each year by 2020 alongside an increase in the number of Graduate Level and Foundation Apprenticeships during 2017-18;
- support measures to tackle structural unemployment issues and challenge inequalities and under-representation in the labour market by supporting people who face barriers to education, training or employment, in partnership with employers, local authorities and the third sector;

- continue with the implementation of the Youth Employment Strategy: 'Developing the Young Workforce' specifically including the development of the network of Developing the Young Workforce Regional Groups and the delivery of employment-focused college provision for young people; and
- respond to the immediate skills needs of employers, through:
 - the establishment of a new Flexible Workforce Development Fund; and
 - on-going and sector-specific skills support for priority sectors in the economy such as digital, care and early years.

Future of Modern Apprenticeships

As set out in our Youth Employment Strategy: *Developing the Young Workforce* the Scottish Government is committed to growing, widening and enhancing Scotland's Modern Apprenticeship programme.

In the recent consultation we sought views on whether we should maintain or increase our commitment to delivery of 30,000 new Modern Apprenticeship opportunities each year by 2020.

In the responses to the consultation there was strong employer support for maintaining the target at its current level. As a result we have agreed to maintain this commitment, continuing to focus on higher level apprenticeships, particularly in Science, Technology, Engineering and Mathematics Frameworks.

To provide stability for employers and training providers we will not introduce any fundamental shift in the mechanisms for apprenticeship delivery in Scotland. In 2017/18 we will retain the current delivery model which allows a flexible approach to delivery by private and third sector training providers; colleges; industry groups and employers. Skills Development Scotland has begun the contracting for the delivery of places in 2017-18 as the next step in our expansion plans.

Advice for employers looking to offer Modern Apprenticeship opportunities will continue to be available on our dedicated Apprenticeship website at www.apprenticeship.scot.

There are however always improvements that can be made. In direct response to the views of employers, providers and wider partners across Scotland from April 2017 we will introduce a number of measures to ensure the programme better meets the needs of the Scottish economy. These include:

- A new Rural Supplement of between £250 and £1,000 for training providers in recognition of the additional costs for delivering in rural areas;
- The removal of public sector eligibility restrictions, meaning from April 2017, public sector employers will have the same access to Modern Apprenticeship funding as those in the private and third sector
- An increase in the number of Modern Apprenticeships Frameworks that can be supported for apprentices aged over 25.
- Enhanced contribution rates providing young disabled people and those with experience of care with the highest level of Modern Apprenticeship funding for their chosen Frameworks until the age of 30.

We will continue to support Skills Development Scotland to ensure that apprenticeship opportunities are open to all and to take forward the measures set out in the Equality Action Plan (EAP) for Modern Apprenticeships, published in December 2015.

Businesses across the UK see National Occupation Standards as a valuable mechanism for ensuring that vocational and technical education, training and qualifications, equip the workforce with the skills business and the economy needs.

Following the decision by the UK Government to move away from using National Occupational Standards and the closure of UK Commission for Employment and Skills, the Scottish and Welsh Governments and Northern Ireland Executive are individually and collectively committed to maintaining NOS for the public good of learners, employers and users across the United Kingdom. We will continue to support Skills Development Scotland in 2017-18 to work with the 3 nations to help them deliver the long-term aspirations for National Occupational Standards to retain quality and transferability within our apprenticeship offers.

As we deliver our apprenticeship offer next year we will continue to reflect on the impact that the Apprenticeship Levy is having on Scotland, working with the industry led Scottish Apprenticeship Advisory Board and wider partners to ensure this continues to support our ambitions through our Youth Employment, Labour Market, and Scottish Economic Strategies.

Widening the Apprenticeship Offers

The Scottish Youth Employment Strategy: *Developing the Young Workforce* is focussed on providing a wider range of vocational education opportunities starting in school with enhanced employer involvement.

Foundation Apprenticeships

Our recent consultation therefore explored whether Levy funding should be used to support the expansion of Foundation Apprenticeships. Foundation Apprenticeships are designed to help young people gain valuable, real-world work experience and access work-based learning while they are still at school.

The responses indicated strong support for levy funding being used to expand Foundation Apprenticeships, both for the benefit of individuals and the benefit of employers. The views from the consultation highlighted the value that Foundation Apprenticeships can bring in helping young people prepare for work, increasing relevant skills while in a work-based setting. This helps enhance their employment prospects in addition to improving confidence and self-esteem, and in many cases providing the first step for progression into a Modern Apprenticeship pathway once they leave school.

The consultation also provided employer endorsement around the benefits that they can gain from Foundation Apprenticeships. In particular there was recognition that Foundation Apprenticeships will help employers engage with, recruit and retain young people. The new offer also presents the opportunity to help address skills gaps and shortages in addition to helping to promote equality and inclusion, addressing under-representation and improving workforce diversity.

In response, the Scottish Government has committed to support the further expansion of Foundation Apprenticeships in Scotland during 2017-18. We will provide Skills Development Scotland with support to deliver 3,000 new Foundation Apprenticeship starts in the next academic year, providing more young people and employers with the opportunity to benefit from these exciting new opportunities.

Graduate Level Apprenticeship

The consultation also asked if Levy funding should be used to support growth in the number of Graduate Level Apprenticeships.

Graduate Level Apprenticeships provide an opportunity to develop a new way into degree-level study for individuals who are currently employed, or who want to go straight into work. Apprentices can progress to the highest level of professional qualifications with a range of entry and exit points from a Higher National Diploma (Scottish Credit and Qualifications Framework level 8) to a Master's degree (Scottish Credit and Qualifications Framework level 11).

The responses to the consultation showed resounding support for this, as a measure that would meet the needs of employers allowing them to develop skills in their own

workforce, or increase the range of higher or technical skills available to them as an employer.

The growth in Graduate Level Apprenticeships will help match individuals and their skills to actual business requirements, enabling employers to grow their own highly skilled talent internally, with the potential benefit of improving staff recruitment and retention. In addition to providing an alternative route for young people to work towards rewarding high skilled employment, Graduate Level Apprenticeships have the potential improve innovation and productivity.

In 2017-18 we will continue to expand the Graduate Level Apprenticeship offer in Scotland. Skills Development Scotland is currently finalising its tender exercise for the development and delivery of at least 125 new Graduate Level Apprenticeship starts in the coming year in partnership with industry and a range of Higher Education Institutions across Scotland.

Advice on how to get involved in Foundation or Graduate Level Apprenticeships is available on our dedicated Apprenticeship website at www.apprenticeship.scot.

Workforce Development – Addressing Industry Skills Needs

Early engagement with employers highlighted that, while they see great value in Modern Apprenticeships, they do not see them as the only way to meet their skills needs. It was clear that employers welcomed a much broader, more flexible offer in response to the apprenticeship levy than was being proposed in England. In particular they were looking for support that would allow them to address skills gaps and the training needs of older workers where a full apprenticeship might not be appropriate.

In the consultation we asked if the Levy funding should be used to establish a flexible skills fund to support wider workforce development. The responses to the consultation highlighted clear support for the introduction of such a fund, recognising that this would help develop a workforce to meet future needs, supporting overall economic growth in an ever changing environment.

Flexible Workforce Development Fund

In response to the views of employers to our recent consultation on the Apprenticeship Levy, the Scottish Government will establish a new Flexible Workforce Development Fund to be introduced in Autumn 2017. This will be developed with the input of employers through the industry-led Scottish Apprenticeship Advisory Board and shaped by Colleges Scotland and the Scottish Funding Council. It will be delivered through the further education sector. This new fund will provide employers with support towards the flexible workforce development training needed to support inclusive economic growth through the up-skilling or re-skilling of their employees. Further details of the new fund will be worked up in the new year.

Wider Workforce Development Support

In addition to the new Flexible Workforce Development Fund we will also continue to support a range of other measures to address industry skills needs and support inclusive economic growth.

In many parts of Scotland, public bodies are among the largest employers and as such, they can play an important role in offering sustainable employment and in developing their staff. They undertake a range of skills and training-related activities for which they already receive funding from the Scottish Government through their respective budget allocations. In line with our Youth Employment, Labour Market and Scottish Economic Strategies we continue to work with public sector employers across Scotland to consider how they can make a difference to the recruitment and development of their staff through all of their activities.

We will provide support to help employers recruit disadvantaged young people to access and sustain employment through our Employment and Training Support Initiative.

We will also continue to support recruitment and training within specific sectors of the Scottish economy including:

- Digital Economy Skills and Business Support
- Energy, through our Transition Training Fund
- Social Care, through the Voluntary Sector Development Fund
- Early years recruitment and training
- Teacher Training, through the Into Headship provision and the Scottish College for Educational Leadership

In line with our Youth Employment Strategy, we will continue to strengthen employer links with schools through the development of our network of Developing the Young Workforce Regional Groups.

We will also continue to provide funding for Individual Learning Accounts supporting the upskilling of those on low incomes to enhance their employability or career progression.

Pre-employment Support

The final area explored in the consultation was whether the Apprenticeship Levy should be used to help unemployed people move into employment, and to help meet the workforce needs of employers.

Meeting the recruitment needs of Scotland's employers means doing all we can to help unemployed Scots into work. It means working to remove barriers for groups who face particular challenges finding jobs, and enabling people to fully participate in the labour market.

The responses to the consultation also showed support for this area particularly in aligning the support available to help people into employment with the needs of employers. Respondents also noted the opportunities for wider economic and societal benefits from helping those furthest from the labour market into sustainable employment.

As a result the Scottish Government will use the Apprenticeship Levy funding to deliver a package of employment and training measures to support a resilient and inclusive labour market.

From 1 April 2017 we will deliver transitional Scottish employment support services for some of the most vulnerable people in society, including disabled people and those with long-term health conditions, ahead of delivering full employment services in April 2018.

We will also continue to deliver support through the Employability Fund – our all-age pre-employment programme which supports unemployed people to gain the skills and experience they need to move towards and into work.

In addition we will also support the role of Scotland's Further Education colleges in the employment focussed courses that they provide for learners, alongside college engagement with local employers to deliver the skills required to support sustainable employment and economic growth.

Scottish Government Consultation

The Scottish Government consulted on options for the use of its share of UK Apprenticeship Levy funding being transferred to the Scottish Government. The consultation ran from 13 July to 26 August 2016. The consultation document can be found here: <https://consult.scotland.gov.uk/employability-and-training/apprenticeship-levy/>

The questions in the consultation are set out below.

Q1. Should the Government's commitment to 30,000 Modern Apprenticeships starts a year by 2020 a) be maintained or b) be increased?

Q2. Should Apprenticeship Levy funding support growth in the number of Graduate Level Apprenticeships in Scotland?

Q3. Should Apprenticeship Levy funding be used to establish a flexible skills fund to support wider workforce development?

Q4. Should Apprenticeship Levy funding be used to support the expansion of Foundation Apprenticeships?

Q5. Should Apprenticeship Levy funding be used to help unemployed people move into employment, and to help meet the workforce needs of employers?

Q6. Are there any additional suggestions on how Apprenticeship Levy funding might be used?

The finding of an analysis of responses to the consultation of the Scottish Government's response to the introduction of the UK Apprenticeship Levy can be found at: <http://www.gov.scot/Publications/2016/11/7593>

MEASURES SUPPORTED BY THE APPRENTICESHIP LEVY

Activity	Estimated Expenditure in 2017-18 £m
MODERN APPRENTICESHIPS	
Our continued commitment to deliver 30,000 new Modern Apprenticeship starts each year by 2020.	81.5
National Occupation Standards	0.5
Sub-total	82.0
GRADUATE LEVEL APPRENTICESHIPS	
Graduate Level Apprenticeships	4.7
Sub-total	4.7
FOUNDATION APPRENTICESHIPS	
Foundation Apprenticeships	6.8
Sub-total	6.8
WORKFORCE DEVELOPMENT	
Support to employers to help disadvantaged young people to access and sustain employment	9.3
Developing the Young Workforce Regional Groups	4.1
Flexible Workforce Development Fund	10.0
Digital Economy Skills & Business Support	1.9
Care Sector Skills - Voluntary Sector Development Fund	0.9
Early Years Recruitment & Training	25.0
Energy Sector – Transition Training Fund	6.0
Teacher Training	2.5
Individual Learning Accounts	3.9
Sub-total	63.6
PRE-EMPLOYMENT SUPPORT	
Employability Programmes	25.0
Employment focussed college provision for young people	36.3
Inspiring Scotland	3.0
Sub-total	64.3
Total	221.4