

The Apprenticeship Levy in Scotland

A Scottish Conservative Approach

Background

The Apprenticeship Levy was announced in July 2015 and will be introduced from April 2017. It is a UK-wide levy payable by businesses with an annual pay bill of over £3 million. Details over the operation of the Levy in England have now been published, but the Scottish Government has so far been reluctant to reveal its approach.

[UPDATE] The UK Government has agreed a final funding deal with devolved administrations in mid-November 2016 as follows:

Population share of levy funding (£m)	2017-18	2018-19	2019-20
Scottish Government	221	230	239
Welsh Government	128	133	138
Northern Ireland Executive	76	79	82

The £220m+ from the Apprenticeship Levy compares very favourably to current Scottish Government spending on apprenticeships - which is around £75m – as well as the total Skills Development Scotland 2016/17 budget, which is £176m.

The scope to improve skills training in Scotland is therefore significant. However, there are some clear difficulties in deciding how to use the Levy proceeds. For example, the Levy will only apply to about 2% of all businesses in Scotland, but not all of them run apprenticeship programmes and not all of them would want to absorb a significant increase in MA starts either. These businesses can reasonably expect to see some return for their payment. On the other hand, skills funding should self-evidently be used for training as determined by market need, regardless of company size and across all sectors.

This paper outlines Scottish Conservative priorities in relation to the Apprenticeship Levy. In the absence of any leadership by the Scottish Government, these are the priorities we will be pushing for.

Our Approach

In the 2016 Scottish Conservative & Unionist manifesto we made three key commitments in the skills portfolio:

1. Expand the number of apprenticeship starts
2. Create new skills academies
3. Provide more bite-sized training opportunities

The Apprenticeship Levy should be used to advance all three of these objectives. The approach outlined below is based on three key principles (it should be transparent, flexible and corrective) within the overarching aim of improving and increasing the amount of skills training in Scotland.

The key objective for us is ensuring that there is full transparency in how much funding Scotland received as a result of the Levy, that the proceeds are not siphoned off, but invested in apprenticeships and skills in full, and that Levy-paying businesses receive at least some benefit from having paid it – either directly or through their supply chains.

The introduction of the Apprenticeship Levy will likely encourage businesses to employ more apprentices (if there is a way to recover the cost for those who pay it), but it will also increase awareness of the programme and might contribute to increased demand. Per head of population, Scotland has only half the number of apprentices than England.

We should therefore use the funding available to expand both the quantity and quality of apprenticeships. Broadening the scope of the programme is possible within the current Scottish structure, without radically changing the nature of apprenticeship training. We should, for example, allow business groups more widely to submit framework bids to Skills Development Scotland with the aim of expanding the number of frameworks on offer.

The difference between England and Scotland in terms of quantity is not the only issue that has been highlighted to us. There are well document imbalances between genders in specific apprenticeship frameworks, as well as issues with disabled and care-experienced people accessing apprenticeships. There is also demand for apprenticeships for older workers, which currently are rarely available and/or funded at lower rates. The significant injection of funding from the Levy allows us to correct some of these imbalances.

The Apprenticeship Levy should therefore result in a system that is:

1. Transparent

There is a clear danger that the Apprenticeship Levy funds will be siphoned off to other parts of the Scottish Government budget as the proceeds won't be ringfenced. We will therefore demand absolute transparency from the Scottish Government in how much

funding it received from the Apprenticeship Levy and that all of it is used to support in-work employee training – whether apprenticeships or smaller training schemes.

Transparency is also important in ensuring that levy-payers benefit from the levy, whilst at the same time non-payers don't lose out on skills development opportunities. Evidence suggests that some levy-paying businesses will not be able to absorb a higher number of apprentices into their business to recover all of the cost, which underlines importance of broader skills training being made available too.

In the Scottish system, payment for training is being arranged between SDS and training providers, whilst in England individual digital accounts are being set up for levy-paying business who will arrange training payment with providers directly. The lack of transparency regarding training costs has been criticised in the past by Audit Scotland and there is scope to improve the arrangements in Scotland.

Input from businesses, especially levy-paying businesses, in any future skills policy should be paramount. We therefore propose the creation of a Levy Paying Business Board that could work within existing structures (like the Scottish Apprenticeship Advisory Board) to ensure that AL funding is used to meet the needs of the businesses and their supply chains.

2. Flexible

While we will continue to argue for an expansion of the apprenticeship programme, we recognise that formal apprenticeships are not the only form of skills training and that smaller training schemes should form a part of the mix. Our 2016 Scottish Election manifesto made it clear that access to smaller bite-sized training should be improved.

We therefore propose the creation of a Flexible Skills Fund, which would sit alongside apprenticeship funding and be administered by Skills Development Scotland. There is some concern from levy-paying businesses that they won't be able to access any funding they contribute. In addition, they have highlighted the need for skills development in their supply chains, which they would be happy to contribute to.

We therefore propose that the Flexible Skills Fund is split into sectors corresponding to the percentage of Levy each sector contributes, with the funding then used for skills development in the specific sector, either by the levy-paying business themselves or in their supply chain. This should be overseen by SDS and the new Levy Paying Business Board. It is important, however, that a section of the FSF as well as apprenticeship funding, is available for sunrise industries too.

There will need to be set criteria for accessing this fund, with a menu of recognised skills development routes. There will have to be a process developed for approving these training opportunities, but this must be a much more flexible, simpler and faster business-led process. We envisage the end result being a parallel list of training frameworks, not limited by age.

3. Corrective

While the Flexible Skills Fund should be flexible and not limited by age, funding from the AL gives us an opportunity to correct existing apprenticeship disparities. The government is already, commendably, aiming to address disparities in gender, help disabled young people to take on more apprenticeships and encourage care-experienced young people into these too. The additional funding allows us to create further incentives for companies to hire these apprentices.

Another significant gulf exists between smaller and larger companies and their willingness to take on apprentices. A recent FSB survey suggests that 72% of all small businesses never employed an apprentice. The extra funding from the AL should be used to provide further incentives to small businesses to take on apprentices, either through Scotland's Employment Recruitment Incentive or other routes.

The one area where more progress is needed is older workers. Businesses tell us that there is demand there for more apprenticeships or broader skills training for older workers. This is now especially important in the North East where re-skilling is necessary for thousands of experienced workers.

The Scottish Government should therefore loosen the funding criteria for existing MA frameworks to enable more over 25s to access fully-funded places. In addition, we should consider the creation of a new Lifelong Apprenticeship that would be aimed specifically at older workers, with frameworks designed to take into account skills gaps (on the business side) and existing experience (on the individuals' side).

Summary

In summary, the list of our proposals in relation to the Apprenticeship Levy is as follows:

1. The Scottish Government should be fully transparent in how much funding is being raised through the Apprenticeship Levy in Scotland.
2. All Apprenticeship Levy funding should be used for in-work training only and not be siphoned off to other parts of the Budget.
3. AL funding should be used for the expansion of the apprenticeship programme in scope and scale, as well as broader skills development funding.
4. AL funding should be used to accelerate the number of apprenticeship starts – if there is sufficient demand – to 35,000 per annum by the end of the Parliament.

5. Training contribution rates should be reviewed and SDS should improve the transparency of payments to training providers.
6. The number of apprenticeship frameworks should be expanded by broadening framework submission criteria.
7. Incentives should be developed to close disparities between genders in specific apprenticeship frameworks, as well as helping disabled and care-experienced people access apprenticeships.
8. Incentives should be developed to help small businesses hire more apprentices.
9. Funding criteria for existing MA frameworks should be loosened for over 25s.
10. New Lifelong Apprenticeships should be introduced aimed specifically at workers aged 25 and above.
11. A new Levy Paying Business Board should be created to jointly oversee the use of AL funds in skills development.
12. A Flexible Skills Fund should be established to fund smaller bite-sized training opportunities.
13. The FSF should be split into sectors corresponding to the percentage of Levy contributions. Levy-paying and non-paying businesses should have access to funding for their sector.
14. Set criteria should be developed to access the FSF, with training frameworks being developed through a similar, but much simpler business-led process compared to apprenticeship frameworks.
15. The newly-created training frameworks should not be age limited.