

# **Consultation on the Scottish Government Response to the UK Apprenticeship Levy**

**July 2016**

## Foreword by Jamie Hepburn MSP, Minister for Employability & Training



Modern Apprenticeships play an increasingly important part in Scotland's approach to workforce development and youth employment. In partnership with employers and training providers, the Scottish Government has increased the number of Modern Apprenticeship opportunities to 26,000 in 2016/17. As part of Scotland's Youth Employment Strategy *Developing the Young Workforce* we are committed to growing the number of opportunities to 30,000 a year by 2020.

The introduction of the UK wide Apprenticeship Levy was announced by the UK Government. This was done without any prior consultation with the Scottish Government and the other Devolved Administrations, despite apprenticeship policy being a fully devolved matter.

The Scottish Government is committed to working with employers to shape our response to the introduction of the Apprenticeship Levy. We want to take full account of employers' views on how Levy funding coming to Scotland can be used to benefit employers, individuals and our economy as a whole.

From our early discussions with employers there is a strong commitment to protecting our distinctive Scottish approach to providing high quality apprenticeship opportunities which respond to the current and future needs of the Scottish economy.

However the employers we have spoken to have suggested a more flexible approach which sees Levy funding to support workforce development more widely while protecting the development of the apprenticeship programme.

While ultimately decisions on the use of Levy funding will have to be taken against the backdrop of ongoing austerity imposed by the UK Government, the input of employers and other interested parties through this consultation will contribute significantly to the Government's response. I encourage you to respond to this consultation to aid that work.

**Jamie Hepburn**

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# **CONSULTATION ON SCOTTISH GOVERNMENT RESPONSE TO THE INTRODUCTION OF THE UK APPRENTICESHIP LEVY**

## **INTRODUCTION**

### **Purpose of this consultation**

1. This consultation asks for views on options for the use of Apprenticeship Levy funding being transferred to the Scottish Government.
2. The questions in this consultation paper are deliberately framed in a way that allows employers and other interested parties to express their views on options for the use of Apprenticeship Levy funding. The Government will consider this as part of the forthcoming budget process.

## **CONSULTATION QUESTIONS**

- 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?

## RESPONDING TO THIS CONSULTATION

3. Responses should reach us by 26 August 2016. We would welcome earlier responses.

4. Please complete your response using the online system at <http://consult.scotland.gov.uk/employability-and-training/apprenticeship-levy/> or send your response with the completed Respondent Information Form included at the end of this paper (see 'Handling your response' below) to: [apprenticeshiplevy@gov.scot](mailto:apprenticeshiplevy@gov.scot)

or:

Apprenticeship and Employer Incentives Team  
Scottish Government  
6<sup>th</sup> floor  
5 Atlantic Quay  
150 Broomielaw  
Glasgow  
G2 8LU

5. If you have any questions please send an email to [apprenticeshiplevy@gov.scot](mailto:apprenticeshiplevy@gov.scot)

6. This consultation, and all other Scottish Government consultation exercises, can be viewed online on the consultation pages of the Scottish Government website at <https://consult.scotland.gov.uk/>

7. The Scottish Government has an email alert system for consultations <http://register.scotland.gov.uk/Subscribe/Step1>. This system allows stakeholders, individuals and organisations to register and receive a weekly email containing details of all new consultations.

## **Handling your response**

8. We need to know how you wish your response to be handled and, in particular, whether you are happy for your response to be made public.

9. Please complete the consultation online at <http://consult.scotland.gov.uk/employability-and-training/apprenticeship-levy/> or complete and return the Respondent Information Form (included at the end of this paper) as this will ensure that we treat your response appropriately. If you ask for your response not to be published we will regard it as confidential, and we will treat it accordingly.

10. All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

## **The consultation process**

11. As well as publishing this consultation paper, the Scottish Government will be discussing these issues with a range of organisations, including organisations that represent employers' interests.

## **Next steps in the process**

12. Where respondents have given permission for their response to be made public and after we have checked that they contain no potentially defamatory material, responses will be made available to the public in the Scottish Government Library and on the Scottish Government consultation web pages by 15 September 2016.

13. You can make arrangements to view responses by contacting the SG Library on 0131 244 4552. Responses can be copied and sent to you, but a charge may be made for this service.

### **What happens after the consultation?**

14. We will analyse responses to the consultation and information gathered from any workshops, group discussions and meetings carried out during the consultation period. Scottish Ministers will then consider the responses as part of the forthcoming budget process.

### **Comments and complaints**

15. If you have any comments about how this consultation exercise has been conducted, please send them to the contact details above.

## **THE APPRENTICESHIP LEVY**

16. 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.

17. The UK Government will use the funding generated through the Levy to support its commitment to deliver its ambitions for apprenticeships in England during the lifetime of the current UK Parliament and to allocate a share to each of the Devolved Administrations through existing Barnett arrangements.

18. Training levies and their collection are a matter reserved to the UK Government. However skills policy including responsibility for apprenticeships is a fully devolved matter.

19. Since the announcement the Scottish Government has been involved in discussions with HM Treasury on Scotland's share of the funding. Discussions on the exact implications for the Scottish budget are ongoing. Once this is finalised it will be for Scottish Ministers to develop proposals on how Scotland share of the levy will be allocated when setting future Scottish Budgets.

20. The introduction of the Apprenticeship Levy comes at a time when the Scottish Government policy on Modern Apprenticeships has been set as part of the 7 year implementation of the Youth Employment Strategy Developing the Young Workforce.

21. Alongside the introduction of the Levy the UK Government is also overhauling the development and delivery of apprenticeships in England. While this is very much the responsibility of the UK Government, the Scottish Government has been engaging with the Department for Business, Innovation & Skills to understand the planned changes and to ensure that cross UK issues are fully considered.



22. This work will continue in relation to issues which will have an impact across the UK including the future of existing levies, such as that which funds the Construction Industry Training Board, and the infrastructure which supports the development of apprenticeship frameworks.

23. The Scottish Government is keen to work with employers to shape our response to the introduction of the Levy Ministers to support employers to recruit more apprentices and support wider workforce skills development. Officials have already been involved in discussions with a range of employers and other stakeholders. That engagement has helped shape early thinking on how Levy funding might be used to support our Modern Apprenticeship and wider skills ambitions.

24. This consultation is designed to test more widely the ideas developed to date with employers.

### **Scottish Government Modern Apprenticeship Policy**

25. While the Scottish Government is committed to growing, widening and enhancing Scotland's Modern Apprenticeship programme, we do not believe there is the need for a fundamental shift at this stage in the mechanisms for apprenticeship delivery in Scotland. This allows a flexible approach to delivery by private and third sector training providers; colleges; industry groups and employers.

26. The success of the Modern Apprenticeship programme can be seen in the ongoing commitment from employers. This reflects the benefits of the programme to employers in supporting the skills development of their workforce and in bringing new talent into that workforce. In 2015/16, 25,818 new Modern Apprentices commenced their training across a wide range of sectors of the Scottish labour market.

27. In line with the recommendations of the Commission for Developing Scotland's Young Workforce and the Youth Employment

Strategy, the Scottish Government has committed to ambitious significant further development of the Modern Apprenticeship programme. The Youth Employment Strategy is focussed on providing a wider range of vocational education opportunities starting in school with enhanced employer involvement. The overall aim of the programme is to see a 40 per cent reduction in youth unemployment by 2021.

28. Modern Apprenticeships are a central part of the Strategy. The Government is committed to increase the number of new Modern Apprenticeship opportunities to 30,000 a year by 2020, with growth focussed on higher level apprenticeships, particularly in Science Technology Engineering & Mathematics frameworks, and an on-going focus on opportunities for young people.

29. The strategy sets out how we will seek to widen the programme by addressing under representation among young disabled people, young people from minority ethnic backgrounds and care leavers as well as addressing gender segregation within the programme. This focus on inclusion is designed to widen the talent pool at the disposal of employers, supporting them to harness all of the talents available to them. There is also a commitment to support more small businesses to offer Modern Apprenticeships.

30. The strategy also sets out how we plan to enhance the programme by offering earlier opportunities for pupils in the senior phase to begin apprenticeship training while still at school through the introduction of Foundation Apprenticeships and to introduce Graduate Level Apprenticeships in partnership with employers and universities. (An explanation of both Foundation and Graduate level apprenticeships is set out later in the document.)

31. The development of the programme will be informed by senior and wide ranging employer leadership through the recently established Scottish Apprenticeship Advisory Board and employer input from the

Developing the Young Workforce (DYW) programme through the DYW Programme Board and the emerging network of DYW Regional Groups.

32. Originating from the recommendations of the Commission for Developing Scotland's Young Workforce, the Scottish Apprenticeship Advisory Board provides employer leadership and contributes to the development of apprenticeships in Scotland; ensuring they are aligned with industry and economic need, fair work and job opportunities. It is responsible for providing advice and guidance and making recommendations on the guiding principles, operational policy, systems and structures supporting apprenticeships in Scotland.

33. The Scottish Apprenticeship Advisory Board structure includes an Employer Engagement Group, of which employer and business organisations are members. This group has a specific role to listen, engage, communicate and distil information from employers on matters affecting apprenticeships in Scotland and will therefore play an important role in supporting the consultation process.

34. Parallel to the establishment of the Scottish Apprenticeship Advisory Board is the emergence of the network of industry led DYW Regional Groups. These bring together employers and the region's education community to encourage and support more employers to engage with schools and colleges and to recruit more young people including Modern Apprentices.

## **OPTIONS FOR THE FUTURE**

35. From engagement with employers to date it is apparent that while they see great value in Modern Apprenticeships, they do not see them as the only way to meet their skills needs. Nor is there evidence that Levy paying employers will be able to absorb the numbers of apprentices into their businesses required to recover their full Levy contribution.

36. The Scottish Government is therefore keen to explore a wider set of options to use Levy funding to benefit employers and support our economic ambitions while supporting the delivery and quality of the Modern Apprenticeship programme for the benefit of Levy paying employers and of smaller employers. The approach outlined in this consultation document covers four distinct elements which you are invited to share your views.

Element 1 - Maintain the current Modern Apprenticeship growth ambition and commit to industry that we would fund further expansion should there be demand.

37. The Scottish Government remains committed to delivering at least 30,000 Modern Apprenticeship starts each year from 2020. We believe that this remains the appropriate level of expansion to protect the quality of the apprenticeships on offer, both for Modern Apprentices and for employers.

38. Discussions with employers to date have indicated that there is a general view that while the introduction of the Apprenticeship Levy will potentially increase interest in the recruitment of Modern Apprenticeships among Levy paying employers, they will generally not be in a position to offer a sufficient number of Modern Apprenticeships to recover their full Levy contribution.

39. Levy paying employers comprise no more than 2 per cent of all employers in Scotland. The majority of employers who currently recruit apprentices fall below the Levy threshold. Many of these employers are part of the supply chain for Levy paying employers.

40. There was an acceptance among the employers we have spoken to that investment of Levy funding in Modern Apprenticeships directed toward smaller employers will benefit Levy paying employers in terms of developing skills among their supply chain and more generally within the economy. The Scottish Government therefore remains committed to

supporting both Levy paying employers and smaller employers able to offer Modern Apprenticeship opportunities.

41. The introduction of the Apprenticeship Levy will potentially encourage employers to recruit more Modern Apprentices. In recognition of this, we think it is appropriate to offer employers the opportunity to provide more than the 30,000 opportunities that we have already committed to if there is sufficient industry demand. The overall level of this would need to be agreed, with the quality of Modern Apprenticeships at the heart of any further expansion.

Q1.  
Should the Government's commitment to 30,000 Modern Apprenticeships starts a year by 2020;

- a) be maintained
- or
- b) be increased?

## Element 2 – Graduate Level Apprenticeships

42. Within the overall plans to grow the Modern Apprenticeship programme is a commitment to develop Graduate Level Apprenticeships. These would provide work-based learning opportunities up to Masters degree level for employees. They are being created in partnership with industry and the further and higher education sector. These apprenticeships combine academic knowledge with workplace focussed skills development to enable participants to become more effective and productive in the workplace at an earlier stage.

43. 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).

44. By investing in staff through Graduate Level Apprenticeships, employers can enhance the higher level skills of their workforce and support their staff to develop their skills to industry and professional standards. Graduate Level Apprenticeship designed around the needs of industry will provide employers with confidence that the learning at college or university will directly contribute to the success of the business.

45. The first Graduate Level Apprenticeships will begin in 2016 with an initial focus on ICT/Digital, Civil Engineering and Engineering. As they develop it is expected that the programme to extend to a range of additional industry sectors.

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

a) Yes

b) No

### Element 3 –Development of a flexible skills fund for wider workforce development

46. Employers have indicated that they would welcome a wider use of Levy funding for workforce development training opportunities beyond apprenticeships. This was something which was a particular focus in relation to addressing skills gaps and meeting the skills needs of older employees for whom a full apprenticeship would not be appropriate. While the Modern Apprenticeship programme allows some scope for those aged 25 and over to participate in the programme, the focus of the planned expansion is on those aged under 25.

47. Our discussions with employers have indicated that using Levy funding to support a new flexible skills fund for employers to train existing employees would be welcomed. Quality and positive impact on productivity would be central to the fund, with training restricted to qualifications benchmarked against appropriate levels of the Scottish Credit and Qualifications Framework (potentially level 6 and above).

48. The Scottish Government is interested in the idea of a new flexible skills funding stream to support wider workforce development. Aligning this with areas of known current and future skills shortage such as ICT and digital, logistics and distribution, the future demands of the transition to the green economy and areas of construction will be important. This would be developed in partnership with industry and would be aligned with economic growth and fair work ambitions.

49. Such a proposal would need further work within the Government's forthcoming budget process but we would welcome feedback from employers on the value of this approach.

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

a) Yes

b) No

#### Element 4 – Pre-Employment Support

50. As part of Developing the Young Workforce Programme Skills Development Scotland, colleges and schools are working together to offer opportunities to young people to participate in Foundation Apprenticeship opportunities within the senior phase of school. These are designed to help young people gain valuable, real-world work

experience and access work-based learning while they're still at school. By giving young people earlier exposure to the world of work, they have the opportunity to develop the skills, experience and knowledge they'll need when they leave school including preparation for a full Modern Apprenticeship.

51. For young people Foundation Apprenticeships provide the chance to get a head start on their careers by gaining an industry-recognised qualification, work on real projects and broaden their career options when they leave school. They also provide much better practical understanding of the Modern Apprenticeship pathway open to young people after they leave school.

52. For employers, the emergence of Foundation Apprenticeships provide an opportunity to attract highly motivated and committed young people who are willing to learn, identify young people who are right for their business and contribute to ensuring their organisation has people with the skills they need.

53. Funding is in place to support the development and expansion of Foundation Apprenticeships until 2018. In the longer term there is an opportunity to consider whether or not Foundation Apprenticeships should be supported by Levy contributions.

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

a) Yes

b) No

54. From 1st April 2017, employment support services in Scotland will change. New powers to provide employment support for disabled people and those at risk of long term unemployment will be devolved to Scotland.



55. The Scottish Government aims to use these powers to better align employability support in Scotland, helping unemployed Scots find sustainable and fair work, and focusing on those who need most help to reduce inequality. This is also an opportunity to deliver the support unemployed people need to find – and to stay in - work and helping employers to find, employ, and retain the people they need to help them compete successfully and grow their business.

56. The devolution of contracted employment support will build on existing SG services, not only to help people find and stay in work, but to develop the skills of our workforce to ensure that employability support is firmly aligned with the needs of the Scottish labour market. In this way, we can ensure that individuals are supported in finding employment opportunities, but also that businesses can find the employees they need to grow and to succeed.

57. 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 participate fully in the labour market. To deliver this, in the first delivery stage, Scottish Ministers have agreed to allocate up to an additional £20m in 2017-18 over and above the initial £7m funding being transferred to the Scottish Government for the delivery of newly devolved employment services.

58. To match employer needs to with support for people seeking work, funding from the Apprenticeship Levy would provide an opportunity to enhance the support on offer, and align with employer needs. The aim is to create employability services in Scotland that reflects the workforce, that meets industry and sector needs that helps grow national and local economies and that builds on the existing delivery landscape.

59. Devolved powers are a springboard for greater efficiency, alignment and integration of employability support. Devolved powers are also an opportunity to build the employability skills of unemployed

people, and to match the employment needs of employers in Scotland, with those seeking employment.

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

a) Yes

b) No

### Additional Suggestions

60. The Scottish Government would welcome your views on additional suggestions on how Levy funding might be used to develop skills.

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

## Consultation on Scottish Government Response to the Apprenticeship Levy



### RESPONDENT INFORMATION FORM

**Please Note** this form **must** be returned with your response.

Are you responding as an individual or an organisation?

☐ Individual

☐ Organisation likely to pay the Levy ☐ Organisation unlikely to pay the Levy

Full name or organisation's name

Phone number

Address

Postcode

Email

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

☐ Publish response with name

☐ Publish response only (anonymous)

☐ Do not publish response

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for the Scottish Government to contact you again in relation to this consultation exercise?

☐ Yes

☐ No



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