

Julie James AC / AM
Y Dirprwy Weinidog Sgiliau a Thechnoleg
Deputy Minister for Skills and Technology



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
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William Graham AM
Chair, Enterprise and Business Committee
committeebusiness@wales.gsi.gov.uk

14th August 2015

Dear William,

Response to the Enterprise and Business Committee – supplementary questions raised on the Framework for Co-investment in Skills

I am writing in response to your letter of the 14 July, which follows on from my attendance at the Enterprise and Business Committee on the 11 June, concerning the implementation of the Welsh Government's Framework for Co-investment in Skills ('the Framework').

I welcome the comments and insight from Committee members following the 11 June committee as well as the two stakeholder workshops held to date. Whilst I recognise that there remains an element of ongoing apprehension regarding the co-investment policy, there also appears to be a general consensus from stakeholders that, as we look ahead, the availability of public funds for training is likely to be limited and therefore we need to develop a long-term and financially sustainable model for skills delivery in Wales.

As I mentioned during my attendance at Committee, and noted within the supporting paper provided to members, the skills landscape in Wales is shifting. We need to acknowledge that Wales is lagging behind the rest of the UK nations in terms of the level of employer investment in skills. There remains a proportion of employers who are still not regularly investing in training and critically we must prepare ourselves for a time beyond 2020 and the current round of European funding.

The Framework does not retract any investment being made by the Welsh Government in skills delivery and nor has it been developed purely in response to the current or future budgetary challenges facing Wales. The focus has always been on striking the right balance between the support available from government for skills delivery – which will always be finite in nature – and the investments which are and should continue to be made by employers to support the skills of their workforce.

I appreciate that rebalancing this relationship represents a significant cultural shift for certain employers and for certain sectors in Wales as well as for training providers. However, I believe the Framework provides an overall win-win scenario for all stakeholders involved as

the 'do nothing' scenario is likely to see Wales fall further behind in terms of its overall skills profile and the level of skills investment made by employers.

Timescales for implementation

As noted within the supporting paper provided to Committee, the concept of co-investment is not new. It was highlighted as part of the Policy Statement on Skills published in January 2014, the consultation on the co-investment policy which commenced in February 2014, the Skills Implementation Plan published in July 2014 and the Skills Performance Measures published in September 2014. The expertise of an External Reference Group comprising of key stakeholders including employers was also sought in shaping the policy and to support its ongoing communication with employers, training providers and other organisations in Wales.

We have also given a two-year window to April 2017 to implement the key elements of the Framework. During this time the Welsh Government will continue to invest in training alongside employers. This will leave just over two years until the end of the current round of European funding in 2020 to embed the policy.

I do not believe that postponing action into future years will allow sufficient time for the appropriate level of transition to take place and could leave certain mainstream programmes vulnerable to considerable budgetary shocks in the future should European funding significantly diminish or even cease. That is why we need to take action now.

Communication including engaging with employers

We are currently in the process of agreeing the detail of a Communications Plan which will further support the communication and engagement with key stakeholders. The Plan will involve a variety of engagement routes focusing on employers, training organisations as well as the Regional Skills Partnerships.

I would like to take this opportunity to thank the Committee for their offer to engage and promote the message of investment in skills and, where appropriate, I will capture this as part of our overall Communications Plan.

You also mention in your letter specific information on the intention to lever in those employers who are not regularly engaged with training. As well as seeking to engage with such employers as part of our Communications Plan we are also making further investment in training alongside employers as part of our Skills Priorities Programme (SPP). SPP is providing Further Education colleges with the opportunity to develop new training concepts in response to employer demand for training, supported by the evidence base available from the Regional Skills Partnerships. The aim of the programme is to look at innovative methods of training delivery which could attract more employers to engage and invest in the skills of their workforce. Indeed ensuring provision remains relevant to employers forms a critical part of the *influencing* pillar of our Framework and is captured by a number of actions including SPP, our work on standards and qualifications and the evidence from the Regional Skills Partnerships.

As we move forward with implementing the Framework, we will of course continue to engage with key stakeholders such as the Federation of Small Businesses (FSB), the Confederation of British Industry (CBI), Colegau Cymru and the National Training Federation for Wales. I also remain in regular contact with key employers and employer representative groups through the work of the Wales Employment and Skills Board (WESB) which is chaired by Scott Waddington in his capacity as Wales Commissioner to the UK Commission for Employment and Skills (UKCES).

European funding and in-kind investment

I recognise that those stakeholders wishing to access European funding have an interest in gaining further detail on the practicalities of co-investment from the perspective of in-kind matched funding. I cannot comment directly on this issue given that European funding is not within my portfolio. As you are aware the Wales European Funding Office (WEFO) is responsible for managing the delivery of EU Structural Funds in Wales. However, my officials worked closely with WEFO during the development of the Framework and are continuing to provide commentary on individual project proposals to ensure that the right balance is struck between the priorities in place with the European Commission and the policy direction being set through my portfolio as defined by the Policy Statement on Skills, Framework for Co-investment and Skills Performance Measures. My understanding is that where project beneficiaries are employers or employed status individuals (i.e. the project is supporting general workforce development activities), WEFO are expecting project proposals to include reference to the Framework for Co-investment in Skills and to recognise the need for employers to provide a direct investment in training.

As noted above, European funding is not within my portfolio. However, in the interest of developing a financially sustainable skills system, I would expect those organisations bidding for European funding to appreciate that basing their projects on in-kind contributions from employers could limit the capability of those projects to continue delivery into the long term should the matched funding available via Europe reduce or become unavailable. Indeed co-investment provides a sound platform for underpinning the exit strategies of individual European projects. Those projects seeking a direct cash investment from employers (as opposed to in-kind) are more likely to continue beyond the lifetime of European funding (or other forms of public funding) as the expectation on the employer to invest in training has been established from the outset.

For the purposes of skills programmes within my portfolio there will be an expectation for employers to provide a direct cash contribution for training with the exception of Apprenticeships for those under the age of 25, Higher Apprenticeships and support for Essential Skills (as per the *Government-led Investments* specified within the Framework for Co-investment in Skills). For example, the Skills Priorities Programme and the Flexible Skills Programme will both require a direct cash contribution from employers. This approach to co-investment will not apply to employability programmes or programmes directly focusing on individuals out of work given that these policy areas are not captured under the Framework for Co-investment in Skills.

Quality of provision and value for money

I appreciate the concerns regarding the potential reduction in the overall volume of training opportunities available in Wales and the risks to the quality of provision.

On the first matter, I acknowledge that the output from provision may fluctuate in the short term particularly as our priorities for Apprenticeship provision embed. However, in driving forward our commitment to higher level skills development, I am more concerned as to whether the investments being made in training are producing the required *impacts* as defined by our Skills Performance Measures.

Whereas it is possible overall training output may reduce as a result of the Framework, it is also possible that this will be countered by improvements in the outcomes for Wales, for example improved skills levels or gains in productivity. The focus should be on value for money and understanding the impact of the actions we are taking rather than purely focusing on output and volume.

This principle is in line with our Skills Performance Measures which focus on ensuring the pool of investments made in training are being appropriately targeted with a view to maximising the impact for Wales in terms of Jobs and Growth, Financial Sustainability, Equality and Equity and International Skills Benchmarking. Such an approach also highlights the fact that the Framework for Co-investment in Skills is not simply about a discussion on who pays for what but is about challenging the investments being made and determining whether these are producing the right outcomes which benefit Wales in the long term – hence the third pillar to the Framework, *Impact*.

In terms of the overall quality of provision I do not expect this to be affected by the implementation of the Framework. Existing standards for the development of Apprenticeship frameworks and vocational qualification design will be maintained and this will be underpinned by the ongoing function of Estyn, other quality assurance processes and the future work of Qualifications Wales. Equally, we must also consider the fact that if employers are being expected to contribute more towards the delivery of training they will expect to see more flexible forms of delivery to come forward but this will not be to the detriment of quality.

Equality and equity

We do not have evidence to suggest that co-investment will have a greater impact on large employers than on employers of other sizes. Having reviewed the evidence on employer investment in skills available from the UK Commission for Employment and Skills (UKCES), the general trend appears to show that the smaller the employer, the higher the level of investment made in training¹. This appears to reflect the economies of scale for larger employers. This data also indicates that larger employers in Wales decreased their expenditure on training between 2011 and 2013 with the investment by smaller firms increasing over the same time period.

I recognise that time and money are the major barriers for many employers wishing to participate in training; however, I remain convinced that we should be looking to some larger employers to do more in terms of skills development, whether individually or by working across their respective industries and supply chains. Similarly, I do not expect sectors with existing levy systems to pay twice for training and, at this stage, I am not aware of any specific elements of the Framework which could produce this scenario. Despite this I have asked officials to continue to engage with the Industry Training Boards to ensure such risks are appropriately managed.

On the issue of access to programmes by age, I would like to reiterate to Committee members that, unless otherwise stated, all Welsh Government skills programmes are available to access on an all-age basis. I recognise that, by prioritising Apprenticeship provision for those under the age of 25 and focusing on Higher Apprenticeships, there is a perception that this provision is now age restrictive. This is not the case. Apprenticeship provision is still available on an all-age basis although we have chosen to support employers where they are either seeking to develop higher level vocational skills at Level 4 and above (i.e. via a Higher Apprenticeship) or where they are contributing to reducing levels of youth engagement and employment by supporting an apprentice under the age of 25.

Similarly our Skills Priorities Programme will not have any age restrictions; however the provision made available to employers will focus on higher level skills delivery in response

¹ UK Commission for Employment and Skills (UKCES) Employer Skills Survey 2013: Wales Report, Table 5.5 Total training expenditure and spend per person trained and per employee, by size (2011 vs. 2013) <http://gov.wales/docs/caecd/research/2014/140604-employer-skills-survey-2013-wales-report-en.pdf>

to future jobs and growth opportunities. We will continue to review the areas requiring prioritisation by assessing the impact of government-led investments through the use of our Skills Performance Measures.

Regional prioritisation

The role of the Regional Skills Partnerships (RSPs) will be key to ensuring that regional employment and skills priorities are taken into account during the planning and funding of our skills provision. We are currently in the process of developing Demand Supply Assessments with the RSPs which will seek to influence the allocation/ deployment of Further Education and Apprenticeship provision from 2016-17.

By working with the RSPs in this way we have sought to capture key infrastructure and inward investment projects at an earlier stage to ensure that these are factored into our planning and funding regime. As noted previously, our Skills Priorities Programme will also provide the opportunity to develop new training concepts in response to employer demand for training and this programme will be supported by the evidence base available via the RSPs.

Our intention is to promote collaboration at a regional and national level rather than a race to compete for limited public funds. We will be working with RSPs to promote co-investment in skills and the need for employers to invest in the skills of their workforce. Our expectation is that, by working with RSPs to ensure regional provision is more reflective of the needs of local employers, there will be a clear rationale for employers to invest. To complement this work we will again be using our Skills Performance Measures to develop a regional dashboard which can track the impact of the work we are taking forward with the RSPs on at a regional level.

Community benefits within procurement

I am very keen to maximise the opportunities for strengthening the work of my portfolio and the links to the portfolio of the Minister for Finance and Government Business in terms of public sector procurement and the use of social clauses (or community benefits). I am grateful to the Committee for noting this particular issue and in recognising how it fits within the context of the Framework for Co-investment in Skills.

The current procurement best practice in terms of Community Benefits is not mandated although guidance is available online via the link below aimed at supporting procurers to incorporate community benefits within procurement initiatives and the contacting process: <http://gov.wales/topics/improvingservices/bettervfm/publications/community-benefits-2014/?lang=en>

I am continuing to work with the Minister for Finance and Government Business on this area so that Welsh Government can bring forward future actions which could strengthen the existing guidance.

In closing I would like to thank again the Committee for the opportunity to provide evidence to support their inquiry. I am in no doubt that implementing the Framework represents a long-term cultural challenge for Wales and I remain committed to ensuring it is implemented with sensitivity and taking full account of the feedback from stakeholders. I also remain

convinced that this is the only way forward if we are to develop a long-term and financially sustainable model for skills delivery in Wales. I will of course continue to update the Committee on the progress being made in implementing the Framework.

Yours sincerely

A handwritten signature in blue ink that reads "Julie James". The signature is written in a cursive, flowing style.

Julie James AC / AM

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