

Paper to the Enterprise and Business Committee Implementing the Framework for Co-investment in Skills

Introduction

The Welsh Government is committed to investing in skills alongside employers and this engagement will continue for as long as resources are available to allow us to do so. In 2014-15 we invested over £536m which focused on supporting individuals and employers in Wales. This included £507m in post-16 education, a further £19.8m in employment and skills support and over £9.4m to underpin our work on youth engagement and employment¹. Furthermore, in April 2015 we announced £144m of investment, supported by the European Social Fund, to deliver 52,000 apprenticeships in West Wales and the Valleys over the next four years².

This paper provides background to how the Welsh Government investment in skills development, such as via apprenticeship provision, will continue into the future and how it will be underpinned by the *Framework for Co-investment in Skills* which was published in November 2014³. The paper focuses on:

- the challenges facing Wales with respect to employer investment in skills and the need to raise overall skills levels in response to future jobs;
- the engagement we have made with stakeholders in developing the framework;
- the activities underway with respect to the three elements of the framework – influence, investment and impact; and,
- the timeline for implementing the framework by April 2017 including the cultural change required amongst employers, particularly those who have come to rely on government funding, in developing the skills of their workforce.

Understanding the challenge facing Wales

Despite the investment we are making in skills development we cannot ignore the fact that the landscape for skills investment is changing, particularly as we look ahead to a time beyond 2020 and the current round of European funding. The historic approach purely to expand

¹ The figures provided are based on a review of overall expenditure associated with budget lines within the Department for Education and Skills. Figures do not include expenditure associated with Higher Education, Post-16 Learner Support, Qualifications and Welsh Language.

² www.gov.wales/newsroom/firstminister/2015/10049697/

³ Framework for Co-investment in Skills (Welsh Government, 2014)
www.gov.wales/docs/dcells/publications/141120-framework-for-co-investment-in-skills-en.pdf

the supply of skills, for example by increasing grant funding for training, is not financially sustainable and neither will it address the cultural shift which is required of employers to recognise skills as an investment decision for which they should take lead responsibility.

Wales has seen improvements in recent years in the scale of skills investment made by employers. For example, overall levels of employer investment in training have risen from £1.5bn in 2011 to £1.6bn in 2013⁴. This has been driven partly by the increase in spending of smaller establishments (although there has been a decrease for the largest employers). We have also seen a higher proportion of staff receive training over the same period. However, if we are to develop a financially sustainable skills system built on strong employer engagement we must take action to address the underlying challenges for Wales, including:

- the 38% of employers who are not investing in skills;
- the lag in employer investment in Wales compared to the UK average by £240 per employee (or around 18%);
- the need to improve skills levels at Level 4 and above in response to future jobs⁵;
- the fact that just 13% of employers in Wales are engaged with formal apprenticeships and 44% of employers are offering work placements or work inspiration activities⁶;
- the need to reduce skills gaps associated with Essential Skills such as literacy, numeracy and basic IT; and,
- the need to prepare for the commercial opportunities and community benefits offered by major planned investments in infrastructure⁷.

The *Framework for Co-investment in Skills* has therefore been developed in recognition of these and other challenges facing Wales' skills system over the coming decade. Its content does not alter our position on skills investment or retract all government support for training. It seeks to be clear on those government investments which will continue to be made and how these will align with, and add value to, the investments which should be made and led by employers.

Developing the Framework for Co-investment in Skills

⁴ Employer Skills Survey (UK Commission for Employment and Skills, 2013)

⁵ For example, 36% of working age adults possess qualifications at Level 4 and above compared to the UK average of 38%. See: www.gov.wales/docs/statistics/2015/150422-levels-highest-qualification-held-working-age-adults-2014-en.pdf

⁶ Employer Perspectives Survey (UK Commission for Employment and Skills, 2014)

⁷ For example, Wylfa Newydd, Wrexham Super Prison, Tidal Lagoon, M4 improvements, rail electrification, new housing developments, significant inward investors and growing businesses.

The context for developing a policy of co-investment has been known to employers, unions and delivery partners for some time. As part of both the Policy Statement on Skills⁸ and Skills Implementation Plan⁹ we made clear our intention to take forward a policy of co-investment and, in doing so, we indicated the potential implications for some of our mainstream programmes.

A public consultation¹⁰ also took place on how best to balance the responsibility for skills investment in Wales and this had some 57 responses from a range of organisations in Wales. We supplemented the consultation by additional engagement with the Wales Employment and Skills Board and an expert working group comprising of Colegau Cymru, the Federation of Small Businesses, CBI Wales, Wales TUC, the National Training Federation for Wales (NTFW) and a representative of the Regional Skills Partnerships.

We considered all consultation responses alongside the current evidence of employer engagement and investment in skills, the major skills priorities for Wales (including Essential Skills and higher level skills) as well as the overall backdrop for achieving a financially sustainable skills system. We have also considered the wider priorities for Wales, such as youth employment and engagement, as well as the statutory responsibilities placed on Welsh Ministers.

We also considered the risks associated with government investment displacing the training for which an employer should take lead responsibility and undertake with their employees. For example, it could be argued that sectors with minimum standards for training have developed a culture of dependency on government funding, particularly in relation to all-age apprenticeship provision, and this approach is not financially sustainable or beneficial as we move forward to develop a competitive skills system for Wales.

The framework has moved some way from the initial consideration to express co-investment as a purely transactional relationship between government and employers. We are not, however, dismissing methods for determining some form of contribution from employers towards specific training products, as is required under State Aid regulations, but consider that these should be viewed in the context of the broader framework.

⁸ Policy Statement on Skills (Welsh Government, 2014)

www.gov.wales/docs/dcells/publications/140129-policy-statement-on-skills-en.pdf

⁹ Skills Implementation Plan (Welsh Government, 2014) available at:

www.gov.wales/docs/dcells/publications/140714-skills-implementation-plan-en.pdf

¹⁰ The consultation document and report detailing the summary of responses received is available at: www.gov.wales/consultations/education/proposals-for-co-investment-in-post-19-adult-skills-delivery/

In November 2014, we published the detail of the framework which brought together a coordinated perspective on how best to balance the responsibility for skills investment between employers and government. The framework looks beyond the historic approach simply to increase the supply of skills to an approach which influences the demand for, quality of, and the deployment of skills within the workplace by focusing interventions across three areas:

- **Influence:** Detailing the action that government can take, working with employers, providers, unions and other stakeholders, to influence the investment decisions being made by employers.
- **Investment:** Defining the collective responsibility for skills investment (co-investment) and the investment principles which will drive areas of government and employer intervention.
- **Impact:** Evaluating investment decisions using the Skills Performance Measures published by the Welsh Government in September 2014 and ensuring that there is appropriate performance accountability factored within relevant areas of policy and programme delivery.

The framework therefore focuses on how we can continue to influence, compel and incentivise employers to invest more in the skills of their workforce and to develop the business practices which put those skills to productive use.

Influencing skills investment

Our Skills Implementation Plan highlights a number of interventions being taken forward to influence the supply, demand, quality and deployment of skills and these are interlinked with the framework. Of significance is our work with the Regional Skills Partnerships (RSPs), formally announced in October 2014, which have produced Regional Employment and Skills Plans which review the economic and skills priorities for each of the three regions¹¹. In addition to our work with RSPs we have also:

- Initiated two pilot projects working with the construction and creative industries sectors to explore skills utilisation. These pilots are focusing on how employers can plan/ develop workplace practices which improve the deployment of skills in the workplace.
- Recognised the on-going importance of linking procurement activities, and particularly social clauses, to the skills agenda so that employers recognise and act upon their responsibility for skills investment should they be awarded specific types of government contracts.

¹¹ See announcement made in October 2014:
www.gov.wales/newsroom/educationandskills/2014/141011regionalskillspartnershipsskills/

In developing the framework we have also worked closely with the Welsh European Funding Office (WEFO). As referenced within the framework document, WEFO will expect ESF-supported activities to consider the importance of stimulating employer demand for skills and incentivising, where appropriate, employer or participant contributions to help develop a stronger culture of cost sharing. Indeed we are already seeing a number of project proposals coming forward which include an element of co-investment from employers. We will continue to liaise with WEFO on how projects are taken forward in line with the co-investment framework.

Investment

In reviewing the long-term capacity of some of the mainstream Welsh Government skills programmes we considered the current evidence of employer engagement and investment in skills, the backdrop for achieving a financially sustainable skills system as well as the wider economic and social priorities for Wales, such as youth employment and engagement, the need to raise standards of literacy and numeracy amongst adults and the issue of being able to develop higher levels of skills in response to future jobs.

The most significant change as a result of the framework is the shift to prioritising apprenticeship provision for those under the age of 25 whilst continuing to provide support for higher apprenticeships on an all-age basis. Our priorities for apprenticeships recognise the changing nature of work in Wales, particularly in terms of promoting the development of higher level vocational learning and in reducing the risks of all-age apprenticeship provision being used as a proxy for training which an employer should be prepared to undertake and fund themselves.

We recognise the cultural shift this will require across a number of sectors. In line with the framework therefore, we are undertaking joint action with employers from the early years and health and social care sectors. Specifically, we are progressing an ESF-funded project where the full cost of an apprenticeship in early years for those aged 25 and above will be supported. In health and social care we have agreed a co-investment project for entrants aged 25 and above where the Welsh Government contributes 70% of funding for apprenticeship delivery. Looking ahead, we expect further changes to be made to the apprenticeship model in Wales, informed by the responses to the consultation on aligning the apprenticeship model to the needs of the Welsh economy which concluded on the 24 April¹².

¹² www.gov.wales/consultations/education/aligning-the-apprenticeship-model/

Employers will also continue to benefit from the support being made available through our employment and skills programmes including our new Flexible Skills Programme and Skills Priorities Programme. These will provide additional investment in skills alongside that of employers and will focus on increasing the demand, quality and deployment of skills in the workplace.

Impact

The framework makes use of the Skills Performance Measures which we published in September 2014¹³ and focuses on four areas:

- **Jobs and growth** – Improvements in employment and productivity levels.
- **Financial sustainability** – Ensuring an appropriate and sustainable balance of funding is available to support the skills system sourced from government, employers, individuals and European funding.
- **Equality and equity** – Providing equality of opportunity for individuals in accessing post-19 employment and skills support.
- **International skills benchmarking** – Improving the skills profile of Wales to ensure we remain competitive as a nation.

These measures will be used to monitor the impact of the framework to ensure that it is delivering the appropriate balance of social and economic outcomes for Wales, thereby providing a strong lever for tackling poverty by strengthening the creation of jobs and growth. A summary infographic is included at Annex A of this paper which provides baseline information in relation to the indicators for each of the above measures as at the 13 March 2015.

The measures not only relate to the level of skills investment being made by employers but include monitoring the proportion of employers who are investing in the skills of their workforce, the forms of training being undertaken and the volume of employees being supported. The measures will be important in monitoring the quality and impact of the investments being made in skills and in providing the evidence for making any adaptations required to the framework as we move forward with its integration into policies and programmes.

Compared with reforms to the post-19 funding system in England, which have been essentially market-led, our aim has been to provide clear leadership to guide and direct the skills system in Wales and to work with partner organisations as we move forward with co-

¹³ www.gov.wales/topics/educationandskills/skillsandtraining/skills-performance-measures/

investment, thus aiming to prevent a retrenchment of post-19 skills provision.

We will also be continuing our work with the Regional Skills Partnerships to ensure that their Regional Employment and Skills Plans are aligned with the framework and that there is a commitment at a regional level to increasing employer investment in, and engagement with, training. This will include further action to develop our Skills Performance Measures over coming years to generate appropriate indicators at a regional level with the aim of ensuring that providers, whether these are companies, voluntary agencies, colleges, universities or work-based learning providers, are playing their part in delivering targets associated with these indicators. We will also aim to work with these providers to see how they can develop their own corresponding measures and targets at a more localised level.

Looking ahead

Co-investment represents a clear opportunity for Wales to strengthen our skills system and to ensure that it is not only financially sustainable but that it is capable of delivering the right outcomes to provide a strong lever for tackling poverty by strengthening the creation of jobs and growth.

In developing the framework we have appreciated that increasing the supply of skills alone will not bring employers closer to the skills system and could instead heighten the risk of government resources becoming a proxy for training which employers should be prepared to undertake, lead on and fund themselves. We recognise that this represents a long-term cultural change amongst those employers that have come to rely on public funding to support the development needs of their workforce.

The framework will take time to implement. An initial two-year window to April 2017 has therefore been set so that this transition process can take place. During this time we will continue to review the evidence available on employer investment in skills, linked to our Skills Performance Measures and the work of Regional Skills Partnerships, to ensure we have a strong rationale for making further adaptations to the framework and the co-investment policy as a whole.

We are committed to continuing to work with employers, delivery partners, unions and other industry bodies in the coming years to strengthen the message of employers taking the lead responsibility for skills investment and in promoting the benefits to Wales of a competitive and financially sustainable skills system.

Our ambition for skills in Wales

We are targeting four key priorities*:

Skills for jobs and growth

Skills that respond to local needs

Skills that employers value

Skills for employment

To achieve these priorities our Skills Performance Measures will focus on:

Jobs and growth

Over the past decade we have made improvements in employment and productivity relative to the UK - but we can do more.

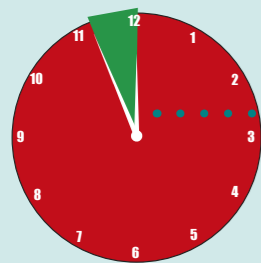
To support actions on jobs and growth we will measure:

Changes in the employment rate relative to the UK¹

The employment rate in Wales is **3.74** percentage points lower than the UK.



Changes in productivity relative to the UK²



Gross Valued Added (GVA) per hour worked in Wales is **93.3%** of that in the UK (excluding London, the South East and East of England).

Percentage of skills gaps due to deficiencies in Welsh language skills³

28% Oral Welsh language skills

27% Written Welsh language skills



Financial sustainability

Since 2011 we have narrowed the gap in employer investment with the UK – but we can do more.

To ensure we deliver a skills system which is financially sustainable we will measure the gap between Wales and the UK in terms of employer investment in employee skills³

Wales



£2,180 per person trained



£1,350 per employee

UK



£2,550 per person trained



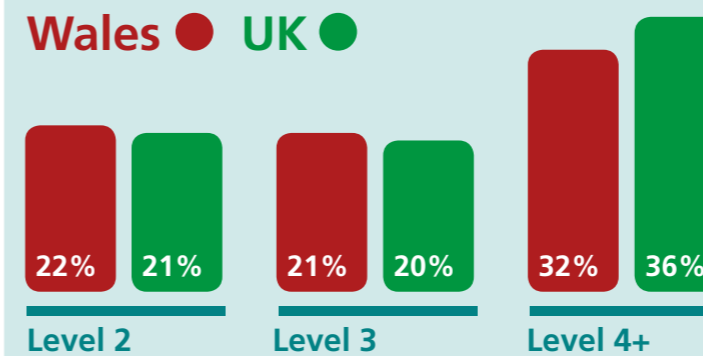
£1,590 per employee

International skills benchmarking

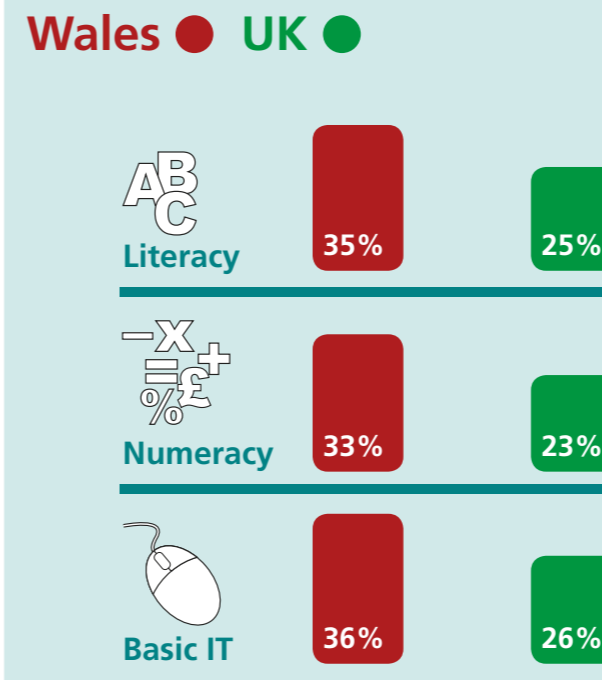
We have improved the qualifications profile of Wales – but we can do more.

To maintain our commitment to raising the skills potential across Wales we will measure:

Percentage levels of highest qualifications held by working age adults⁴



Percentage of skills gaps due to deficiencies in Essential Skills³



Equality and equity

Wales has committed itself to tackling poverty and reducing levels of inequality – but we can do more.

We will measure the equality of access to employment and skills support in Wales

This measure will focus on ensuring that the Welsh Government is providing equality of opportunity for individuals with protected characteristics in accessing post-19 employment and skills support. It covers age, disability, ethnicity and gender.



As data becomes available, the Welsh Government will provide updates on these measures and additional relevant data. Further information on the Skills Performance Measures can be found at: www.gov.wales/topics/educationandskills/skillsandtraining/skills-performance-measures/?lang=en

Reference: (1) Labour Force Survey Q3 2014 (2) Regional Accounts 2013 (3) Employer Skills Survey 2013 (4) Annual Population Survey 2013.

*See the Welsh Government's Skills Implementation Plan at: gov.wales/topics/educationandskills/skillsandtraining/?lang=en

