

Dear Mr Ross,

Thank you for your letter to Damien Yeates dated the 19th of May requesting a response from SDS in relation to evidence the Committee heard during the session on the 14th of May.

I appreciate the Committee providing us with the opportunity to provide additional evidence to support its deliberations.

Contribution Rates

“Committee understands that SDS’ contributions for MAs are the same, irrespective of the setting, it was suggested that colleges can access additional funds to support their delivery of MAs, with a figure of £2,800 to £5,000 quoted. Is this an issue that has been raised with SDS and, if so, does SDS recognise these figures.”

SDS has not been provided access to the data which has informed the assertion that SFC are currently spending £50m on college delivery of Modern Apprenticeships.

Without access to this data, it is difficult for SDS to comment on the accuracy of the figures quoted however we can provide the following background information for the Committee:

The Committee is correct in its understanding that SDS contribution rates for apprenticeships are consistent across provider types, underpinned by a comprehensive and formal policy which ensures transparency, fairness and consistency.

Payment of this contribution is directly linked to performance and achievements. If providers do not achieve agreed outcomes, then SDS withholds payments.

In the Financial Memorandum for the Tertiary Education Bill, the Scottish Government states that the Scottish Funding Council invest c. £50m per year in Modern Apprenticeships.

The Scottish Government has highlighted this SFC funding a number of times in discussion with the SDS Chair. In response, the SDS Board has requested access to details of this funding on multiple occasions, however this has not been provided.

We believe this is a level of additional funding available only to colleges to fund their Modern Apprenticeships.

For context, through direct award and sub-contracted delivery, SDS estimates that colleges are involved in the delivery of just over 20% of Modern Apprenticeships. This would equate to in the region of 8,000 Modern Apprentices in training.

This would appear broadly consistent with evidence shared with the Committee by the SFC, who estimate colleges support c.23% of Modern Apprentices.

In the context of Scottish Government funding of Modern Apprenticeships through SDS, we would make the Committee aware that the costs of Modern Apprenticeship learning, accreditation and certification are not fully funded, regardless of provider type. Rather, Scottish Government via SDS makes a contribution to the cost of these activities.

The funding shortfall across apprenticeship frameworks varies, as do contribution rates. SDS has provided details of costings across a range of frameworks with Scottish Government which seek to give a sense of the relative scale of this funding shortfall.

For example, our modelling estimates that an engineering Modern Apprenticeship at SCQF level 7 costs the provider c. £12,000 to deliver. The maximum contribution rate is around £10,000, meaning there is a funding shortfall of c. £2,000.

On that basis, it may be that colleges are using SFC credits to offset this funding shortfall, however as highlighted previously, SDS has not been given access to the modelling of this £50m cost of funding nor the policy, guidance or monitoring that would support this additional funding of college-led MA provision.

Other types of learning providers (including direct delivery via employers, local authorities, lead providers or independent providers) have no access to this additional public funding and are required to secure any funding shortfall from the apprentice employers they work with.

This is one reason that the SDS Board has highlighted a need to exercise caution in relation to a colleges-first model on the basis that college delivery of apprenticeship would appear to require significant additional public sector investment, making delivery much more expensive and potentially ‘crowding out’ this private sector investment.

A breakdown of achievement for 2024/25 by provider type is included below:

Contractor Type	24/25 contracted volumes	Achievement
College provider	18%	70.9%
Other provider*	82%	81.5%
Overall Programme Level	100%	79.8%

**(i.e. independent provider, employer provider, local authority provider, lead providers)*

Separately, we would highlight that this issue of partial funding is reflected within the OECD 2022 report on “Strengthening Apprenticeship in Scotland”¹, which states

¹ https://www.oecd.org/en/publications/strengthening-apprenticeship-in-scotland-united-kingdom_2db395dd-en.html

“Currently, Scotland's funding system disproportionately favours higher education over apprenticeships. While higher education is fully funded, employers have to bear some of the training costs involved in Modern Apprenticeships, especially for older adults.”

The report goes on to recommend that apprenticeships should be fully-funded, as would be the case in other post-school qualifications. This issue would appear material in relation to the Policy Memorandum's stated ambitions to ensure 'parity of esteem' between different types of learning.

Finally we believe it is worth noting that contribution rates in Scotland are significantly lower than England with the scale of this quantum varying dependent on frameworks.

As an example, we estimate engineering apprenticeships in England typically receive around £8,000 more funding than in Scotland. Despite this, achievement rates in Scotland are consistently around 20% higher than in England.

Managing Agent Fees

“Committee also heard that the fee for some management agents is 40%. The Committee would be grateful if you could confirm whether this level of management fee is common across the management and delivery of MAs, including in colleges, and whether SDS considers this level of fee appropriate.”

SDS has undertaken detailed work to reassure Ministers around this concern and the evidence does not support an assertion that lead providers (or managing agents) retain funding for services that they do not deliver.

SDS currently contracts with three lead providers – sometimes known as managing agents. These are SNIPEF, SECCT and CITB. Around 10% of apprenticeship starts are contracted through these lead providers.

These organisations are long standing, industry representative training bodies responsible for training plumbing, electrical and construction apprentices.

Each of these lead providers operate their own distinct delivery models. For example, the Committee may be aware that CITB leverage additional funding for apprenticeships via distribution of a separate construction industry levy which operates distinctly from the UK Levy. We believe this additional funding is combined with SDS contributions to help offset the shortfall in funding.

The contribution made by Scottish Government through SDS covers a number of basic functions which are required to deliver the apprenticeship. These functions include:

- **Learning and quality:** registration, off the job learning, quality assurance, verification of learning, evidence submission
- **Qualification and certification:** Licenses, award & certification registration costs
- **Employer support:** marketing, framework identification, recruitment, ongoing support
- **Apprentice support:** induction, learning plan, assessment, pastoral care, resources for delivery

The resource that these functions require varies by framework. For example, a procurement framework with an average completion time of 12 months is likely to require relatively low levels of 'off the job learning' compared to an engineering framework with a completion time of around four years.

In the examples referenced above, SDS has provided modelling to Scottish Government officials which demonstrates that the learning and quality component would account for just over 50% of the total cost of delivery of a procurement apprenticeship and just over 60% of the cost of an engineering apprenticeship.

On that basis it would be expected that a lead provider who sub-contracts only 'the off the job learning' component of the apprenticeship, but who retains the other critical functions as detailed above (and therefore costs of delivery) would seek to retain funding to cover the costs, which again are absolutely necessary to the delivery of the apprenticeship.

Therefore, we believe it would be inaccurate to consider this as a 'management fee' as it covers the actual costs of delivery and support for core activities required to deliver a successful apprenticeship.

We would highlight a number of additional points in relation to apprenticeship funding which the Committee may wish to consider:

- SDS funding for apprenticeships is provided on the completion of outcomes. If outcomes are not achieved, payments are not made. Lead providers may therefore carry any risk of non-completion within any sub-contracting arrangements they have – they can't recover payments for apprentices who drop out of the college led underpinning knowledge component.
- As outlined in our response to the Committee's first question above, apprenticeship funding does not currently cover the full costs of delivery. Lead providers are therefore required to leverage private sector investment to support delivery of apprenticeships. In the case of CITB additional funding is provided by their industry levy.

In the days ahead we will write separately to the Committee to follow up with some additional information which Damien offered to share whilst giving evidence on 7 May.

In the meantime, if we can support with any additional information please don't hesitate to contact me.

Yours sincerely

James Prentice

Director of Corporate Affairs, Skills Development Scotland