

Tertiary Education and Training (Funding and Governance) (Scotland) Bill

Financial Memorandum

Introduction

1. As required under Rule 9.3.2 of the Parliament’s Standing Orders, this Financial Memorandum is published to accompany the Tertiary Education and Training (Funding and Governance) (Scotland) Bill, introduced in the Scottish Parliament on 5 February 2025.
2. The following other accompanying documents are published separately:
 - Explanatory Notes (SP Bill 57–EN);
 - a Policy Memorandum (SP Bill 57–PM);
 - a Delegated Powers Memorandum (SP Bill 57–DPM);
 - statements on legislative competence by the Presiding Officer and the Scottish Government (SP Bill 57–LC).
3. This Financial Memorandum has been prepared by the Scottish Government to set out the costs associated with the measures introduced by the Bill. It does not form part of the Bill and has not been endorsed by the Parliament.

Overview

Summary of provision in the Bill

4. Under the Further and Higher Education (Scotland) Act 2005 (“the 2005 Act”), the Scottish Funding Council (“the SFC” or “the Council”) is responsible for securing the coherent provision of further education (“FE”) and higher education (“HE”) and research at FE and HE institutions. Part 1 of the Bill expands the functions of the SFC by conferring powers and duties on it in respect of funding and securing the delivery of National Training Programmes (“NTP(s)”), Scottish apprenticeships and work-based learning, and makes other changes to its functions. In this Financial Memorandum, the costs of the NTPs, Scottish apprenticeships and work-based learning provision are considered in Part 1A and the changes to SFC’s other functions are considered later (Part 1B).

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

5. Part 2 of the Bill makes improvements to the governance arrangements of the SFC.
6. Part 3 of the Bill makes technical amendments for the provision of student support to Scottish-domiciled students at approved private providers based in Scotland or rUK.
7. Part 4 of the Bill makes provision for the interpretation, ancillary provision, commencement and short title and has no bearing on costs. It is not considered further in this Financial Memorandum.
8. This Financial Memorandum summarises all the costs in Table 1 before examining the costs (savings) from each part of the Bill separately. Relevant provision is outlined in a little more detail before it is costed.
9. Abbreviations are introduced where needed and summarised in a glossary at the end of this Financial Memorandum.

Presentation of the figures

10. In this Financial Memorandum:
 - all figures are in thousands of pounds (£,000) in 2024-25 cash terms (apart from Table 2 and Table 15) and all figures relate to fiscal resource (RDEL);
 - inflation is applied at HMT GDP deflator forecast rates¹ (around 2% per annum) compounding from 2024-25 to both the low cost and high cost estimates, unless otherwise stated;
 - salary costs are converted to gross staff costs by multiplying by 140%, where gross staff costs are not otherwise available;
 - to avoid conveying a false sense of accuracy, figures are provided to two significant figures only except where more significant figures are needed to aid understanding and interpretation of the tables. Rounding also means that totals in the tables may not always appear to sum correctly; and
 - references to years in the format yyyy-yy are to financial years (1 April to 31 March), not academic years.

Coming into force

11. For the purposes of this Financial Memorandum, it is assumed that all provision in the Bill comes into force on 1 October 2026, this being halfway through the financial year 2026-27. This is referred to as the “transfer date” in this Financial Memorandum. In reality, some of the provision may be commenced earlier or later than this.

¹ [GDP deflators at market prices, and money GDP October 2024 \(Autumn Budget 2024\) - GOV.UK](#)

Summary of costs and savings

12. The principal cost of this Bill derives from the consequences of enabling Skills Development Scotland's ("SDS") responsibilities for NTPs and apprenticeships to move to the SFC. This is a largely technical change in the configuration of two public bodies. For this reason, it is unsurprising that the significant costs of this Bill fall on the Scottish Administration and these two public bodies.

13. The Bill creates an environment where efficiency savings could be made by enabling current apprenticeship policies to be **delivered** differently. The consolidation of provision also enables those **policies** to change. This Financial Memorandum has, apart from Table 15, not factored in the potential savings and benefits from policy development and changes to models of delivery.

14. The consolidation of provision also enables more flexibility in managing funding streams across the post-school system, for example allowing money to be moved across programmes in-year, which will make it more agile in responding to changes in demand and other unforeseen circumstances.

15. Table 1 below summarises all the costs (savings) of implementing the provisions in the Bill for the Scottish Administration and all other individuals and organisations. The total for the Bill (bold row) excludes: any one-off shortfall payment to transfer pensions or savings from the apprenticeship programme. These are set out in the subsequent rows. There are very large uncertainties around the pension shortfall payment and the range included below is illustrative, rather than an estimate; this is explained at paragraph 67 onwards. Similarly, the savings from the apprenticeship programme (which will be funded through the Scottish Ministers' powers to make grants in amended section 4 of the 2005 Act) are indicative only; this explained at paragraph 132 onwards. It would potentially be misleading and convey a false sense of certainty to treat these numbers in the same way as the estimates of other numbers in this Financial Memorandum.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Activity	Range	2025-26 £,000	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Total for Part 1(a) (Table 3)	Low	540	2,300	600	590	590	590
	High	1,000	4,200	1,000	1,000	1,000	1,000
Total for Part 1(b) (Table 17)	Low	-	8	16	16	16	17
	High	-	51	110	110	110	110
Total for Part 2 (Table 19)	Low	-	(48)	(100)	(110)	(110)	(110)
	High	-	33	57	58	59	60
Total for Part 3 (Table 23)	Low	-	6	13	13	14	14
	High	-	15	31	32	32	33
Total for the Bill	Low	540	2,200	530	510	510	510
	High	1,000	4,300	1,200	1,200	1,200	1,200
Pension shortfall payment	Low	-	1,000	-	-	-	-
	High	-	23,000	-	-	-	-
Apprenticeship programme (Table 15)	Low	-	-	(1,300)	(2,600)	(2,600)	(2,600)
	High	-	-	-	-	-	-

Table 1. All the costs (savings) of implementing the provisions in the Bill. All figures are resource costs (RDEL) in £,000 (cash terms). Amounts are rounded to two significant figures or to the nearest thousand which means that the totals in some columns may not appear to sum correctly.

16. Note that there are no capital costs identified as a consequence of provision in the Bill.

17. Almost all of the costs in Table 1 either fall directly on the Scottish Administration, or indirectly through costs (savings) for the SFC or SDS. The principal source of the increase in ongoing cost in Table 1 arises from the harmonisation of terms and conditions of staff transferred from SDS to SFC and the principal source of variation is due to uncertainty around the numbers of staff to be transferred.

18. There are no quantifiable additional costs or savings for local authorities, colleges, higher education institutions or regional strategic bodies. There are some modest additional costs or savings for independent training providers (i.e. training providers other than higher education institutions and colleges) and employers.

19. The costs of any pension shortfall payment would be required to be met by the Scottish Administration.

Part 1A: National Training Programmes, apprenticeship and work-based learning

20. Part 1 of the Bill modifies and expands the functions of the SFC. This Financial Memorandum considers the functions in relation to NTPs, apprenticeships and work-based learning separately (Part 1A) from the other functions (Part 1B).

Outline of Bill provisions

High quality delivery and learning

21. Section 1 of the Bill amends section 3 of the 2005 Act to place the SFC under an overarching obligation to exercise its functions to secure the coherent provision of high quality apprenticeships and work-based learning. This coherency extends across what is already provided for in the 2005 Act in respect of further and higher education and research, so that the SFC is to be obliged to consider all aspects of post-school education in securing the coherency of high quality provision.

22. Section 2 of the Bill amends section 4 of the 2005 Act to expand the general duty on Scottish Ministers to provide support, including making such grants to the SFC for the purpose of securing high-quality delivery of apprenticeships and work-based learning as they consider appropriate. (NTPs do not feature. This is because the Scottish Ministers need not fund any NTPs at any given time.)

National Training Programmes

23. SDS and, in some cases the SFC, have delivered NTPs, such as the Flexible Workforce Development Fund which provided training to employers to upskill and re-skill their existing workforce. Section 3 of the Bill inserts new sections 12C and 12D into the 2005 Act. New section 12C gives the Scottish Ministers the powers to make grants to the SFC for the purpose of securing the delivery of NTP provision and new section 12D of the 2005 Act gives the SFC responsibility for administering grants for the purpose of securing the delivery of NTP provision.

24. The power conferred upon the Scottish Ministers to make grants to the SFC for the purpose of securing the delivery of NTP provision (through section 3 of the Bill) does not, of itself, generate any additional costs or savings. This is because there is nothing in the Bill which requires the Scottish Ministers to provide more funding or less funding for NTPs than they do at present. How much funding is provided by the Scottish Ministers to secure the delivery of NTPs (and consequently the scale and scope of these programmes) is a policy decision for the next Scottish Administration. At present, funding for NTPs is provided to the SFC and SDS partly through the Scottish Funding Council and Lifelong Learning and Skills Level 2s in the Scottish Budget and partly through funding from other parts of Scottish Government in respect of particular programmes. For example, the Teaching Bursary in Scotland is funded from the

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Learning Level 2. The Scottish Government provided SDS with funding of around £2 million in 2024-25 for the following NTPs: the Teaching Bursary in Scotland; the Land Based Pre-Apprenticeship Programme and Digital Skills. More information about these and some previous NTPs is set out at paragraph 141.

Apprenticeships and work-based learning

25. At present, the SFC funds graduate apprenticeships and some foundation apprenticeships under its statutory powers for securing FE and HE provision. SDS delivers modern apprenticeships and some foundation apprenticeships on a non-statutory basis. Foundation apprenticeships are unpaid and therefore not regarded as true employment-based apprenticeships by many stakeholders.

26. Section 5 of the Bill inserts new sections 12I and 12J into the 2005 Act. New section 12I of the 2005 Act gives the Scottish Ministers the powers to make grants to the SFC for the purpose of securing the delivery of Scottish apprenticeships and work-based learning and new section 12J of the 2005 Act gives the SFC responsibility for securing the delivery of all apprenticeship provision and work-based learning. The Bill establishes, for the first time, a statutory framework for apprenticeships in Scotland and confers responsibility for securing provision on the SFC. Current foundation apprenticeships will sit under statutory functions for the SFC to fund and secure the delivery of work-based learning.

27. The power conferred upon the Scottish Ministers the powers to make grants to the SFC for the purpose of securing the delivery of Scottish apprenticeships and work-based learning (through section 5 of the Bill) does not, of itself, generate any additional costs or savings. This is because the Scottish Ministers already fund SDS to secure the delivery of these activities and there is nothing in the Bill which requires the Scottish Ministers to provide more funding or less funding to the SFC than they do to SDS at present. Scottish Government funding supported expenditure of approximately £185 million on apprenticeships in 2023-24, as set out in Table 2 below. The SFC funds all three types of apprenticeship under existing functions in the 2005 Act for securing fundable further and higher education, but is limited to delivery through the fundable further and higher education bodies. SDS currently funds: local authorities, schools, independent training providers and employers to deliver foundation apprenticeships; independent training providers, colleges and employers to deliver modern apprenticeships; and higher education institutions to deliver legacy graduate apprenticeships. (The SFC has funded all new graduate apprenticeships since 2021-22.) The Bill is intended to enable the funding currently provided to SDS (£98 million in 2023-24) to be redirected to the SFC and gives the SFC the necessary functions to administer Scottish apprenticeships and fund a wider range of persons and bodies in securing their delivery. How much funding is provided by the Scottish Ministers to secure the delivery of these activities (and consequently the scale and scope of the Scottish apprenticeship and work-based learning programmes) is a policy decision for the next Scottish Administration. However, the changes made by the Bill are expected to enable other changes which allow some savings to be made, see paragraph 132 onwards.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Type of apprenticeship	SDS	SFC	SAAS	Total
Foundation apprenticeships	8	10	-	18
Modern apprenticeships	84	50	-	134
Graduate apprenticeships	6	23	5	33
Total	98	83	5	185

Table 2. Funding of apprenticeships by type and public body for 2023-24. Figures are those provided to the Scottish Government by the public bodies and are rounded to the nearest £, million (cash terms).

Definition of a Scottish apprenticeship

- 28. Section 4 of the Bill inserts new sections 12E to 12H into the 2005 Act.
- 29. New section 12E of the 2005 Act defines a Scottish apprenticeship. An apprentice must work for an employer for reward (i.e. be paid). Separate provision is made for work-based learning, where the learner is unpaid.
- 30. The occupation or activity in which the apprentice is working must be included in a Scottish apprenticeship framework. There must also be an apprenticeship agreement in place between the apprentice and the person for whom they work.

Scottish apprenticeship frameworks and requests

- 31. New section 12F of the 2005 Act gives the SFC a power to prepare and publish Scottish apprenticeship frameworks. Each framework will set out the relevant requirements for an apprenticeship within the occupation or activities covered. It is expected that publicly-funded apprenticeship frameworks will align with the Scottish Government’s priorities.
- 32. New section 12G of the 2005 Act allows persons (expected to be employers) to request that the SFC prepares an apprenticeship framework, or amends an existing one. The purpose is to enable employers to identify a need and request a framework where one otherwise would not exist. The SFC must consider such a request for a framework or amendment but could refuse it. The SFC might refuse the request, for example, where the SFC considers it unnecessary or to run contrary to the SFC’s (and the Scottish Minister’s) objectives.
- 33. New section 12G(3) gives the SFC the power to charge a reasonable fee to cover the cost of preparing the requested framework. The purpose of this is to allow the SFC to recoup their costs in doing so, especially in the case that there is significant demand.
- 34. At present, SDS, the Scottish Apprenticeship Advisory Board, the Standards and Frameworks Group and the Apprenticeships Approvals Group lead on apprenticeship definition, standards and delivery, including the preparation of frameworks.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Responsibility would transfer to the SFC and the supporting arrangements are expected to evolve.

Issuing apprenticeship certificates

35. At present, training providers pay for a service called [MA on-line](#) from the Federation for Industry Sector Skills and Standards (FISSS) to register a modern apprenticeship and obtain a completion certificate to evidence completion of a modern apprenticeship. This is submitted to SDS to release their final payment in respect of that apprentice.

36. New section 12H of the 2005 Act gives the SFC the power to issue Scottish apprenticeship certificates where they are satisfied the person applying for one has completed a Scottish apprenticeship under one of the frameworks. The SFC can charge a reasonable fee for issuing an apprenticeship certificate.

37. New section 12H(4) gives the Scottish Ministers a power to make provision in regulations about the process for requesting and issuing certificates and the amount of fee that can be charged for issuing a certificate.

Summary of costs

38. Table 3 (below) summarises the additional costs arising from NTPs, apprenticeship and work-based learning provision in Part 1 of the Bill.

Part 1: NTPs, apprenticeships and work-based learning	Range	2025-26 £,000	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Additional costs	Low	540	2,300	600	590	590	590
	High	1,000	4,200	1,000	1,000	1,000	1,000

Table 3. Additional costs arising from NTPs, apprenticeship and work-based learning provision in Part 1 of the Bill. All figures are in £,000 (cash terms).

Modelling Data and Assumptions

Overview

39. SDS and, in some cases the SFC, have delivered NTPs. The modern apprenticeship programme, and half of the foundation apprenticeship programme, are secured and overseen by staff in SDS. These staff working on apprenticeships are based predominantly in what is known as the National Training Programme Directorate in SDS. Note that this is not the structure of the Bill provision: apprenticeship provision is distinct from, and not a subset of, NTP provision.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

40. Staff and other resources would be moved from SDS to SFC to deliver SFC's new statutory functions in respect of NTPs and apprenticeships. As a result, the SFC will have increased responsibilities and increased operational costs, of which the largest component will be staff costs.

41. This Financial Memorandum assumes that SDS's other responsibilities are unaffected. I.e. SDS will continue to have responsibility for: the 16+ Data Hub; Partnership Action for Continuing Employment (PACE); Skills Planning; Careers Information and Advisory Service; aspects of industry and employer engagement; and provision of shared services to a number of other public bodies. SDS will have reduced responsibilities and reduced operational costs, primarily as a result of the apprenticeship programme and relevant staff transferring to the SFC.

42. The most significant contribution to additional ongoing operating costs is from SDS staff being transferred to the SFC. This increases with the number of and seniority of staff being transferred. The largest contribution to the ongoing costs from staff transfer is from pay harmonisation but there are other costs, such as IT provision and office space, which are relevant. The greatest uncertainty in costs arises from pension transfers. There are also additional ongoing operational costs from the SFC's new statutory functions, including issuing apprenticeship certificates and statutory guidance, discussed later in this Financial Memorandum.

43. As of 2024, the SFC has around 190 FTE staff and SDS has around 1,284 FTE staff working across the country, the vast majority of whom are careers advisers. This Financial Memorandum assumes that between 148.4 and 174.6 FTE staff would transfer from SDS to SFC across a range of grades. These estimates are based on initial SDS modelling and require significant further work, including engagement with HR, recognised trade unions and affected staff, to convert into a specific staff list.

44. One of the complications is that SDS staff support apprenticeship delivery in a variety of ways. The apprenticeship programme is supported by: staff in the National Training Programme Directorate; staff in other directorates whose role is fully dedicated to apprenticeship delivery (e.g. employer engagement); staff within other directorates whose role is predominately dedicated to apprenticeship delivery (e.g. communication and marketing); and staff in corporate or shared services who dedicate part of their time to supporting the delivery of apprenticeships. This means that the apprenticeship programme is delivered by a certain number of staff who work full-time on the programme and a range of staff who devote a fraction of their time to it. Obviously, fractions of persons cannot be transferred, so there would need to a consolidation of roles which means that that the number of people transferred could be higher or lower than the FTE range.

Methodology

45. Estimates have been informed through: stakeholder engagement, and via consideration of detailed technical submissions from SDS and the SFC; publicly

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

available data, including the SFC annual accounts², SDS annual accounts³ and HMT GDP deflators, for example; and from comparable reform programmes from Scotland and across the UK to estimate costs of change in areas such as workforce, IT services and estates costs.

46. SDS and the SFC provided data to the project team between August and September 2024. They provided information requested in the format, and using the assumptions (including around inflation), that best reflected their existing operational planning assumptions.

47. This Financial Memorandum calculates the additional costs (savings) arising from the SFC exercising their new functions set out in the Bill by comparing this with a continuation of business as usual. This Financial Memorandum includes any extant transformation programmes and planned efficiency improvements within business as usual, but does not model any new changes.

48. Business as usual is the operating costs and planned expenditure of the SFC as an entirety and that part of SDS which delivers apprenticeships and the associated internal support services. Note that this is a notional grouping, as there are some SDS staff for whom this is a part of their role and some systems which support both the apprenticeships work and the other work of SDS. For the SFC, business as usual includes all staff and non-staff running costs.

49. For the purposes of this Financial Memorandum, no assumptions have been made about potential savings from additional efficiencies such as through shared systems and services (noting that SDS's Transform 27 cost reduction initiative is factored into the estimates). These are likely to be identified as part of detailed design work towards a new target operating model. Therefore, the Financial Memorandum may be skewed towards pessimistic assumptions on overall cost (and additional cost).

50. This Financial Memorandum sets out estimates of costs (savings) for 2025-26 and the five years of the next Scottish Parliament.

National Insurance

51. The UK Government announced an increase to employer National Insurance in the UK Budget of 30 October 2024. This is not reflected in the SFC and SDS staff cost estimates which were prepared before the UK Budget. The increased costs to SDS and the SFC arise from two separate elements⁴:

- a fixed cost per employee of c. £1,400 from lowering the threshold; and
- a variable cost of approximately 1.2% of salary (neglecting lower and upper threshold effects).

² [Scottish Funding Council annual report 2023-24](#)

³ [SDS annual report and financial statements 2022-23](#)

⁴ Assuming all employers are paid more than £9,100 per annum.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

52. The first has an impact on the overall pay bill but no impact on the additional cost. The second, broadly speaking, inflates any additional costs arising from staffing (the transition team and pay harmonisation) by up to 1.2%. This has not been taken into account in the modelling; the uncertainties in the estimates are significantly greater than 1%.

Reductions in staff numbers

53. The Scottish Government has maintained its commitment to no compulsory redundancies across the public sector since 2007. No new staff exit costs have been factored into this Financial Memorandum. It has been assumed that any reductions in staff numbers are achieved through Transform 27, which includes an ongoing voluntary severance and early retirement scheme, as well as natural attrition (regular departures and retirements). The ongoing voluntary severance and early retirement scheme is self-funding; the cost is offset by reductions in the future wage bill.

Costs on the Scottish Administration

54. Transitional costs are attributed to the Scottish Administration. These costs will be directly incurred by the Scottish Administration and funded by the Lifelong Learning and Skills Directorate. (Of course, the public body costs will also be borne by the Scottish Administration indirectly; these are recorded separately in this Financial Memorandum.)

Transition costs

55. Transition costs are defined as short-term or one-off costs resulting from the move from business as usual under the reform trajectory. (The “reform trajectory” means the arrangements at any given point in time, before or after the transfer date, as the plans for reform and the Bill progress.) It is expected that transition costs will be incurred in 2025-26, in anticipation of the legislation being passed, and in 2026-27 as part of implementation. The transition period is defined as from 1 October 2025 (one year in advance of commencement) to 31 March 2027 (six months after commencement).

Transition costs: summary

56. Table 4 (below) summarises the additional costs (savings) for the Scottish Administration incurred by Lifelong Learning and Skills Directorate in carrying out the transfer of operational responsibility for provision of NTPs and apprenticeships from SDS to SFC. Some preparatory (staff) costs are expected to be incurred in 2025-26, before the Bill has passed, with the remaining costs incurred in 2026-27. Table 4 excludes pension shortfall payments due to high uncertainty in the cost; this is explained at paragraph 73 onwards below. There are no anticipated further direct costs to the Scottish Administration in future years.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Activity	Range	2025-26 £,000	2026-27 £,000
Staff costs	Low	540	1,300
	High	1,000	2,400
Non-staff costs	Low	-	780
	High	-	1,300
Total	Low	540	2,100
	High	1,000	3,700

Table 4. The additional costs (savings) for the Scottish administration in the reform trajectory. All figures are in £,000 (cash terms).

57. The transition costs set out above are based on costs estimated in similar structural reform projects. There is a risk that the transition costs could be significantly underestimated.

Transition costs: staff - summary

58. The transition costs (other than relating to pension transfer amounts) are summarised in Table 5 below.

Transition staff costs	Range	2025-26 £,000	2026-27 £,000
Transition team	Low	540	1,100
	High	1,000	2,100
Pay harmonisation – operating costs during transition period only	Low	-	200
	High	-	210
Total	Low	540	1,300
	High	1,000	2,400

Table 5. Summary of staff transition costs, comprising the transition team and pay harmonisation. All figures in £,000 (cash terms).

Transition costs: staff

59. There are three sets of staff costs in the transition period:

- a) Transition team
- b) Pay harmonisation
- c) Pension shortfall amounts – discussed later, see paragraph 67.

Transition team

60. A transition team will be established within the Scottish Administration, including a range of specialists potentially including HR, finance, procurement, digital, data and systems. Some of this will be achieved through secondments or loans from SDS and the SFC. The low to high range estimates for transitional project staffing are due to differing levels of resource and expertise being assumed. Costs for specialist skills have been estimated based on experience with education reform programme and from staff costs provided by public bodies. It is assumed the transition team will be staffed for the transition period.

61. The transition team will oversee and manage this structural change. The estimates are informed by other work on education reform and through engagement with the Welsh Government in respect of the implementation of the Tertiary Education and Research (Wales) Act 2022. The Scottish Government gross pay scales were used to calculate the cost of Scottish Government staff with the agreed pay policy applied. Any contracting costs were taken from existing day rates and VAT was applied. A number of secondments have been accounted for within the transition team and VAT has been applied to these posts.

62. The low cost estimate assumes: 14 staff at middle management grades; one technical architect providing 2.5 days FTE support per week for 24 weeks; and two staff from each public body employed on secondment. Staff costs are gross staff costs.

63. The high cost estimate assumes: 18 staff at middle management grades; a change management lead; three technical architects providing 12.5 days FTE support between them per week for 36 weeks; and two staff from each public body employed on secondment. Again, staff costs are gross staff costs.

64. The difference between the low and high cost is due to the increased FTE support from the technical architects, an additional business analyst and a change management lead.

Pay harmonisation

65. Initial estimates have been made for harmonisation of staff terms and conditions by comparing grades and pay scales between the SFC and SDS. The lower cost estimate for harmonisation is nil, on the basis that all SDS staff salaries are within the pay range for the matched grade at the SFC. The higher cost estimate is calculated on the basis that all SDS staff salaries need to be augmented to the nearest pay range minimum in the SFC. For example, an individual whose salary is £40k at SDS whose role is matched to E2 grade in the SFC (salary range £38k to £45k) would not need an adjustment but an individual paid £36k at SDS and matched to E2 might need to be updated to £38k. The actual cost of harmonisation will be determined through negotiations with employers and trade unions.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

66. These have been included as transition costs in the transition period and then incorporated into operating cost estimates for SFC for 2027-28 onwards. Note that they only arise in the second half of 2026-27, i.e. after the transfer date.

Pensions

67. Pension considerations are relevant for those currently employed in SDS who may be in scope of transfer to the SFC. This is because SDS staff are members of the Local Government Pension Scheme (Scotland) (“LGPS”) whereas SFC staff are members of the Civil Service Pension Scheme (“CSPS”).

68. It is anticipated that affected staff will be offered the opportunity to transfer from the LGPS to the CSPS. Significant work and engagement would be required with SDS, staff, trade unions, pension fund administrators and actuaries to provide staff with specific pension options.

69. Typically, staff are given a three-month period in which to decide. Experience of other transfers shows that take up rates can vary widely; commonly in the range between 20% and 80% uptake, but higher and lower uptake is not unknown.

70. Actuarial advice is required to calculate the implications for individuals affected.

71. The cost of transferring pension provision from one provider to another comprises both the actuarial cost and the payment of any “shortfall payment”. The shortfall payment in this case would be the difference between the aggregate transfer value of accrued benefits from the LGPS and the amount required by the CSPS to honour the terms of the transfer.

Pensions: actuarial advice

72. The cost of actuarial advice is the fee payable to the Government Actuary’s Department or pension fund itself; the Strathclyde Pension Fund, in this case. The low cost is estimated to be £40k based on similar work taken forward recently within the Scottish Government. The high cost is estimated to be £75k assuming a high number of staff choose to transfer their pension. The actual number of staff choosing to transfer is hard to predict (see discussion of pension transfer costs below). It will only be confirmed once a detailed offer has been made to the affected staff and the three-month for them to consider and decide on their preferred option period has elapsed.

Pensions: shortfall payment

73. There are significant challenges in trying to estimate the shortfall payment. They can only be accurately assessed by seeking, and paying for, actuarial advice in respect of the specific cohort of affected staff⁵. Analysis to date is based on numbers of

⁵ See, for example, the complexity in calculating transfer values for the LGPS: [LGPS Scotland Transfer Guidance Note 29 February 2024 .pdf \(pensions.gov.scot\)](#)

individuals potentially in scope to transfer, their grade and FTE status. There is more work to be done before there is a list of named staff for transfer. Actuarial advice is normally only be commissioned when there is agreement to the transfer of a specific cohort of staff.

74. There are a range of factors which can affect the calculation of the shortfall payment including: take-up by affected staff, which can range from 20% to 80%, and each member of staff will make a decision based on their own personal circumstances; and the ages, salaries, previous reckonable service and prior pensions schemes of affected staff. Costs will tend to be much higher for older, longer serving employees.

75. Table 6 shows the shortfall payment that was required in order to transfer staff from the LGPS to the CSPS in five different cases. They have been anonymised to protect the personal data of affected staff. It is not obvious that there is such a thing as a “typical” case and these examples should **not** be regarded as representative or typical. They merely illustrate the very wide range of shortfall payments. (A further complexity is the McCloud Remedy which involves backdated adjustments to pension benefits meaning that some of the information in Table 6 may be subject to revision.)

Case	Shortfall payment (2024) £,000	Cost per person (2024) £,000
Case A	780	8
Case B	1,100	84
Case C	18,000	130
Case D	6,000	140
Case E	150	150

Table 6. The one-off cost of transferring staff (shortfall payment) from the Local Government Pension Scheme to the civil service pension scheme in five cases spread over the last two decades. The costs (£,000) have been adjusted to bring them into 2024-25 prices using HMT GDP deflators.

76. The average shortfall payment per person in Table 6 in 2024-25 prices (based on HMT GDP deflators) is £90k. If 150 staff were transferred from SDS with this average shortfall payment, the total cost would be £13 million. Using the lowest and highest costs in Table 6, for 150 staff the range is approximately £1 million to £23 million. These figures should **not** be taken as estimates but merely as an illustration of the uncertainty. The final approach to staff transfers, and the terms on which they are offered, may be affected by the shortfall payment calculation in this case; the Scottish Ministers may choose to work to a ceiling on the overall cost.

77. Shortfall payment costs are so uncertain that they are not factored into any other calculations in this Financial Memorandum. The Scottish Parliament will be provided with more information as soon as it is available; this is unlikely to be before the Bill is passed for reasons explained at paragraph 72.

Transition costs: non-staff - summary

78. The non-staff transition costs are summarised in Table 7 below.

Transition staff costs	Range	2025-26 £,000	2026-27 £,000
Actuarial advice	Low	-	40
	High	-	75
Legal advice	Low	-	40
	High	-	75
Communications	Low	-	200
	High	-	380
Branding and marketing	Low	-	200
	High	-	310
Consultancy support	Low	-	75
	High	-	100
IT equipment	Low	-	220
	High	-	390
Total	Low	-	780
	High	-	1,300

Table 7. Summary of non-staff transition costs, which all fall in 2026-27. All figures in £,000 (cash terms).

Transition costs: non-staff

79. There are six sets of costs considered under the non-staff heading:

- a) Actuarial advice
- b) Legal advice
- c) Communications
- d) Branding and marketing
- e) Consultancy support
- f) IT equipment.

80. It is expected that these costs will all be incurred in 2026-27.

Actuarial advice

81. This is discussed at paragraph 72 above.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Legal advice

82. External legal advice may be required in the transition period, perhaps in relation to the tax implications of the changes. As the detailed nature of these requirements is unclear, the estimates mirror the estimated actuarial costs. Both of the services are professional.

Communications, branding and marketing

83. The communications, branding and marketing costs depend on decisions made by the Scottish Ministers and the views of the SFC and other stakeholders on the future name, structure and communications approach of the SFC. Such work could include developing branding for the new body and establishing its website.

84. Communications costs are estimated at between £200k and £375k. The low figure of £200k is based on the estimated costs for implementing the reforms proposed in the Education (Scotland) Bill, and other similar projects. The cost estimates have been increased to take account of the need to communicate with a wide variety of stakeholders, including individual training providers and employers, as well as colleges and universities.

85. The high figure of £375k is based on information relating to the South of Scotland Enterprise Bill (2018), for which £275k was estimated for communications. The £375k estimate allows for inflation since 2018, plus a 10% margin.

86. Branding and marketing costs have been estimated as between £200k and £314k based on comparable reform work, using similar arguments as for communication costs.

Consultancy support

87. Costs of consultancy support has also been factored in to assist in areas relating to change management (such as governance and cultural change). These professional services cost estimated are based on similar work taken forward recently within the Scottish Government. The low cost of these services is estimated to be £75k and the high cost is estimated to be £100k. These estimates are based on a day rate of £600 plus VAT for a change management consultant contracted for between five months (low) and seven months (high).

IT equipment

88. Initial IT hardware and systems costs have been provided based on the current unit costs to the Scottish Government and public bodies for using the Scottish Government's SCOTS IT platform. The costs are estimates and would be different if a different platform was used. The lower cost estimate is based on a per user charge for the issuing of a laptop and telephony equipment (transitional cost of c. £1.5k per user) and subsequent network service access and licences (operating cost of c. £1.0-1.2k per

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

user). The higher cost estimate additionally includes the installation of new network connections (additional transitional cost of c. £1k per user).

Costs on local authorities

89. There are no costs on local authorities from the reform trajectory. There may be a negligible saving from any change to the approach to issuing apprenticeship certificates (see below) to the extent that local authorities pay for them at present.

Costs on other bodies, individuals and businesses

90. The reform trajectory has the most significant effect on SDS and the SFC. The transition costs were considered under costs on the Scottish Administration. Operating costs, and changes to operating costs are attributed to SDS and the SFC. Changes to operating costs take effect from the transfer date.

Operating costs: staff

91. Staff operating costs are gross staff costs. There is some level of uncertainty over ongoing staff costs in relation to both assumed staff numbers for future years as well as how pay harmonisation will impact costs. There is a risk that even the high cost estimates could be breached for some or all years.

SDS headcount

92. The SDS headcount is modelled in the same way for business as usual and the reform trajectory.

93. The lower cost estimate is based on 148.4 FTE staff being transferred. This is SDS's estimate of FTE equivalent staff working in the National Training Programme Directorate on the apprenticeship programme. The higher cost estimate is based on 174.6 FTE staff and additionally includes SDS's estimate of FTE equivalent staff working in shared services and corporate functions in support of the apprenticeship programme. SDS favours the higher estimate.

94. In the higher cost estimate, it is assumed that SDS headcount would continue to be managed down over the forecast period as per SDS's assumptions made within Transform 27, before and after the transfer date. Transform 27 is SDS's internal change programme which aims to ensure that, by 2027, it has transitioned to a new, more sustainable operating model to deliver the vision in its 2022-27 Strategic Plan⁶. Transform 27 ends with a significantly reduced headcount in 2029-30 which is flat thereafter. It is assumed that Transform 27 would progress in the same way under business as usual and the reform trajectory.

⁶ See [SDS Annual Review 2022-23](#).

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

95. In the lower cost estimate, it is assumed that the same percentage reduction in headcount is achieved year-on-year as in Transform 27 but from the lower starting point and reaching the target headcount one year earlier.

SFC headcount

96. Under business as usual, the higher cost estimate for SFC staffing is that provided by the SFC based on a static headcount of 190.8 FTE at full occupancy (no vacancies).

97. The lower cost estimate for SFC staffing is as above but with a 3% vacancy rate applied (which is commonly the case in the SFC).

98. The reform trajectory is the same except that the headcount is augmented by the transfer of staff from SDS on the transfer date and the SDS cohort headcount follows the same path as if it had not been transferred.

Salary and pay awards: BAU

99. Under business as usual, the higher cost estimate uses SDS's gross staff cost estimates under Transform 27. The lower cost estimate pro rates these to the lower headcount trajectory. Under Transform 27, SDS applies a 3% pay award assumption to 2025-26 and a 1% assumption thereafter.

100. The lower cost estimate for SFC is based on applying the Scottish Government annual pay award of 3% of salary to SFC staff costs each year starting with 2024-25 salary costs and ending in 2027-28, thereafter pay is flat.

101. The higher cost estimate for SFC is based on gross staff costs provided by the SFC which grow by roughly 3% year-on-year based on a continuing annual pay award.

Salary and pay awards: reform trajectory

102. Under the reform trajectory, the business as usual lower and higher staff cost estimates are used but with pay harmonisation factored in for the transferred SDS staff. Pay harmonisation is explained at paragraph 65 and additional costs from it persist.

Operating costs: non-staff

103. Non-staff costs include IT systems, estates and a range of other corporate costs.

104. For the SFC, this includes whole organisation non-staff costs. The lower cost estimate uses the figures provided by the SFC. The higher cost estimate tracks the lower cost estimate with a 5% margin of error added to it.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

105. For SDS, non-staff costs have been indirectly provided by SDS, from which a per person rate has been derived. This is then applied to the lower and higher headcount paths described above.

106. Under the reform trajectory, the non-staff costs are increased by the IT systems and estates costs described below.

IT systems and transformation

107. IT transitional and operational costs are explained at paragraph 88. This covers the basic access to IT services for transferred staff. Additionally, the IT systems required to deliver apprenticeships, such as FIPS (the Funding Information and Processing System), would have to be migrated from SDS to SFC. It is assumed that there is no change in the operating costs of such systems.

108. The SFC and SDS do not, under business as usual, have capital allocations in future budget years for IT transformation programmes. They will, from time to time, need to upgrade their IT systems. It is assumed that such activity required under business as usual would be adjusted appropriately for the reform trajectory. No capital costs have been identified for this as there are none identified at present under business as usual.

Estates

109. In the longer term, as this is a move of staff between one organisation and another, rather than bringing in new workers, there should be no additional estates cost. However, in the shorter term, the sizes of offices and the terms of leases mean that additional office space needs to be considered and costed.

110. The lower cost estimate is nil and assumes no additional accommodation for the SFC. In this scenario, the increased headcount would have to be absorbed into the existing estate, perhaps by an increased use of working from home as part of a hybrid working strategy. Staff in SDS's National Training Programme Directorate currently operate with high levels of home working.

111. The high cost estimate makes provision for additional accommodation costs for the SFC based on recent comparable examples of shared public sector accommodation. The estimate is around £300k per year based on current rent plus service charges for one floor of Montith House, where SDS are currently based. This would provide additional capacity for approximately 20 people (at any given time) as a bridge between changes in leases. Future policy decisions on estates would need to be aligned to the Single Scottish Estate (SSE) programme, which is supporting a more efficient approach to public sector property management, optimising costs and estate footprint and enabling the delivery of excellent public services. The SSE covers all public bodies subject to the Scottish Public Finance Manual (SPFM) and is engaging

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

with bodies across the public sector in Scotland; public bodies are represented on SSE governance boards.

Baseline: business as usual (BAU)

112. Table 8 below shows the estimated business as usual operating costs of the SFC as a whole combined with the business as usual operating costs relating to the part of SDS which would be transferred to the SFC under the reform trajectory. No significant policy changes have been assumed. Only transformation work already planned or in progress, included by SDS in its baseline return, has been factored in.

Business As Usual operating costs	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Staff costs	Low	25,850	25,990	25,550	25,250	25,330
	High	26,670	26,930	26,810	26,900	27,530
Non-staff costs	Low	6,100	6,580	6,550	6,730	7,260
	High	6,390	6,890	6,770	6,890	7,450
Total	Low	31,950	32,570	32,100	31,980	32,590
	High	33,060	33,820	33,580	33,790	34,980

Table 8. The business as usual operating costs of the SFC as a whole and the operating costs relating to the part of SDS which would be transferred to the SFC under the reform trajectory. All figures are in £,000 (cash terms).

113. Table 8 does not include programme costs for the SFC nor SDS; SDS's apprenticeship programme budgets and costs would move to the SFC. They are not directly affected by the Bill, but see paragraph 132 below.

The reform trajectory

114. Table 9 shows the estimated staff and non-staff operating costs as with Table 8 above but under the reform trajectory.

Transfer: operating costs	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Staff costs	Low	25,850	26,360	25,900	25,600	25,680
	High	26,670	27,310	27,170	27,250	27,880
Non-staff costs	Low	6,240	6,700	6,670	6,850	7,380
	High	6,820	7,310	7,180	7,310	7,860
Total	Low	32,080	33,060	32,570	32,450	33,060
	High	33,490	34,620	34,350	34,560	35,740

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Table 9. The operating costs of the SFC as a whole and the operating costs relating to the part of SDS which would be transferred to the SFC under the reform trajectory, with the implementation of the transfer of responsibilities. All figures are in £,000 (cash terms).

Summary: additional operating costs

115. Table 10 (below) summarises the **additional** costs (savings) for operating costs of SFC and SDS arising from the reform trajectory compared against business as usual. The savings in SDS arise as a result of responsibility for NTPs and apprenticeships transferring to the SFC. The total row in Table 10 is equal to the total row in Table 9 (reform trajectory) minus the total row in Table 8 (BAU).

Scottish Funding Council	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Staff costs	Low	4,780	9,590	9,140	8,840	8,920
	High	5,000	10,020	9,290	8,840	8,920
Non-staff costs	Low	1,670	3,270	3,430	3,560	3,650
	High	2,040	3,700	3,780	3,860	3,940
Total	Low	6,450	12,860	12,560	12,400	12,560
	High	7,040	13,730	13,070	12,690	12,860
Skills Development Scotland	Range	2026-27	2027-28	2028-29	2029-30	2030-31
Staff costs	Low	(4,780)	(9,230)	(8,780)	(8,490)	(8,570)
	High	(5,000)	(9,640)	(8,930)	(8,490)	(8,570)
Non-staff costs	Low	(1,540)	(3,150)	(3,310)	(3,450)	(3,530)
	High	(1,610)	(3,290)	(3,370)	(3,450)	(3,530)
Total	Low	(6,320)	(12,370)	(12,090)	(11,930)	(12,100)
	High	(6,610)	(12,930)	(12,300)	(11,930)	(12,100)
Combined	Range	2026-27	2027-28	2028-29	2029-30	2030-31
Total	Low	130	490	470	470	470
	High	430	800	770	760	760

Table 10. Additional operating costs (savings) for the Scottish Funding Council, Skills Development Scotland and combined under the reform trajectory. All figures are in £, 000 (cash terms).

116. These costs (savings) will ultimately be met by the Scottish Administration.

Summary: additional costs

117. Table 11 (below) combines the transition costs in Table 4 with the additional operating costs in Table 10 to give the total additional costs (savings).

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Total additional costs	Range	2025-26 £,000	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Additional operating costs and transition costs	Low	540	2,200	490	470	470	470
	High	1,000	4,100	800	770	760	760

Table 11. Total additional costs combining additional operating costs (savings) with the transition costs. All figures are in £, 000 (cash terms).

Issuing of apprenticeship certificates

118. New section 12H of the 2005 Act (inserted by section 4 of the Bill) provides a power for the SFC to issue apprenticeship certificates and a power to charge for doing so. They are costed on the basis that both powers are exercised. New section 12H(3) allows the charging of a reasonable fee for issuing a certificate to the person requesting it. New section 12H(4) gives the Scottish Ministers a power to make provision in subordinate legislation about the amount of fee that can be charged. Whilst the apprentice could make the request and be charged, it is expected that it would normally be the employer or training provider doing so.

119. At present, FISSS issue apprenticeship certificates for Scotland, England and Wales. The proportion of FISSS income and expenditure connected with issuing certificates for Scotland varies significantly year by year. The Scottish Government has estimated the cost of issuing FISSS certificates by averaging relevant information in the five annual sets of accounts from 2018-19 to 2022-23. (It is worth noting a dramatic decline in FISSS expenditure on issuing certificates for England over this period, which makes it hard to establish a baseline.)

Cost to the SFC

120. The five year average income from certification for Scotland is £150k and the five year average expenditure for Scotland is £130k, including a pro rata share of project costs (calculated by allocating project costs between Scotland, England and Wales in proportion to expenditure on certificates by country). These figures are taken to be the low and high cost estimates for the SFC in producing certificates. There are no transition costs, as the SDS FIPS IT system already has the functionality to issue certificates. Table 12 sets out how these costs would vary by financial year.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Issuing apprenticeship certificates	Low	66	140	140	140	140
	High	80	160	170	170	170

Table 12. Costs for the SFC in issuing apprenticeship certificates. All figures are in £,000 (cash terms).

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Federation for Industry Sector Skills and Standards (FISSS)

121. FISSS would lose the income from Scotland which, in four years out of five, has significantly exceeded expenditure on Scotland. The difference averages out to be a net loss to FISSS of £20k per year.

Independent training providers and employers

122. Assuming that the SFC charges independent training providers and employers for cost recovery, then there should be no additional cost to them. There may potentially be a saving if the SFC can administer the process at less than the high cost scenario.

123. Table 13 (below) summarises the additional costs (savings) for independent training providers and employers by comparing the FISSS income with the SFC's estimated costs above.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Apprenticeship certificate fee costs	Low	(14)	(28)	(29)	(29)	(30)
	High	-	-	-	-	-

Table 13. Summary of the additional costs (savings) for independent training providers and employers. All figures are in £,000 (cash terms).

Scottish apprenticeship frameworks and requests

124. New section 12F of the 2005 Act (introduced by section 4 of the Bill) gives the SFC the power to prepare and publish Scottish apprenticeship frameworks. There are 138 non-statutory frameworks (or types of apprenticeship) currently available covering modern, foundation and graduate apprenticeships. At present, SDS is responsible for preparing and publishing these apprenticeship frameworks. This responsibility will move to the SFC. But the costs are already accounted for in the operating costs of SDS, which will be transferred to the SFC.

125. In the past, SDS has procured the development and review of apprenticeship frameworks through the Standards and Framework Programme on behalf of the Scottish Government, Welsh Government and Northern Ireland Executive⁷. The costs in the ITT (excluding VAT) range from £6,000 to review an apprenticeship framework to £11,000 for a new apprenticeship framework in Wales or Northern Ireland (not Scotland). More recently, SDS has developed apprenticeship frameworks for Scotland in-house and the costs are likely to be lower.

⁷ Through Public Contracts Scotland, see: [Notice - NOV464801](#).

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

126. In 2023-24, SDS completed developing six new apprenticeship frameworks for Scotland and reviewed a further seven. SDS are in the process of developing a further 14 apprenticeship frameworks for Scotland with a view to completing them in 2024-25⁸.

127. New section 12G of the 2005 Act (introduced by section 4 of the Bill) allows employers (and others) to request that the SFC prepare or amends an apprenticeship framework and gives the SFC the power to charge doing so. SDS already engages extensively with employers to develop apprenticeship frameworks. In effect, requests for frameworks and their development are already included in the operating costs of SDS, which will be transferred to the SFC. Furthermore, under current apprenticeship arrangements, it is possible for sectors to develop their own apprenticeships, which go through the usual apprenticeship development process and receive some support from SDS but do not receive a funding contribution.

128. The novel feature is that an employer (or other requestor) could be charged for the costs incurred by SFC in the preparation or amendment of a framework. It is hard to estimate the level of demand for new or amended frameworks, how many would be progressed by the SFC, or the time spent in processing them. Firstly, the number of frameworks proactively prepared by the SFC will depend on the future direction of apprenticeship policy. Requests for new frameworks would respond to any perceived gaps in the frameworks already in place. Secondly, this is a new process which formalises one aspect of employer engagement on apprenticeship programme development. Thirdly, the time taken to prepare or amend frameworks will depend on how much information or requirements to include in them and how collaboratively they are produced. Estimates of demand and costs are informed by the data available in respect of SDS's current activities (at paragraphs 125 and 126 above) but with the expectation that the number of requests made might be higher but the number of requests progressed might be lower.

129. These additional costs have been estimated as follows. The low cost assumption is that there are 14 requests (10% of the current number of frameworks) for new or amended frameworks each year, of which two (roughly 10% of the number of requests) are taken forward. There is work for the SFC in assessing each request and then further work in developing a framework for the requests that are progressed. The low cost estimate assumes five hours middle management staff time at the SFC to process each request and 35 hours of middle management staff time to develop or amend frameworks. The cost to publish the framework is estimated at £1,000 each, giving a total cost for preparation and publication of a framework of just over £2,300. In this scenario, the average cost per request (successful or otherwise) would be just over £500. (The average cost per request also includes the cost of processing unsuccessful requests.)

130. The high cost assumption is that there are 28 requests (20% of the current number) for new or amended frameworks each year, of which seven (25% of the requests) are taken forward. The high cost estimate assumes ten hours of senior

⁸ [Apprenticeship Approvals Group \(AAG\): Chair's End of Year Report 2024.](#)

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

management staff time at the SFC to process each request and 70 hours of middle management staff time to develop or amend frameworks. The cost to publish the framework is estimated at £4,000 each, giving a total cost for preparation and publication of a framework of just over £8,300. In this scenario, the average cost per request (successful or otherwise) would be just over £2,700.

131. Table 14 summarises the additional costs (savings) for employers in fees for Scottish apprenticeship framework requests.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Scottish apprenticeship framework requests fee costs	Low	3.8	7.8	7.9	8.1	8.2
	High	39.0	81.0	82.0	84.0	85.0

Table 14. Summary of the additional costs (savings) for employers in fees for Scottish apprenticeship framework requests. All figures are in £,000 (cash terms).

Apprenticeship programme expenditure and savings

132. As set out at paragraph 27, Scottish Government funding supported expenditure of approximately £185 million across SDS, the SFC and SAAS to support apprenticeships in 2023-24, of which around £130 million supported modern apprenticeships. The remainder funded foundation and graduate apprenticeships.

133. Under the reform trajectory, SDS's apprenticeship programme budget and expenditure would transfer to the SFC. Table 15 below sets out SDS's forecast of expenditure on the apprenticeship programme under business as usual (row 1), the reduction in SDS expenditure under the reform trajectory (row 2), SDS expenditure under the reform trajectory (row 3) and the corresponding increase to the SFC's expenditure under the reform trajectory (row 4). The table assumes that all of the SDS's budget and expenditure transfers from SDS to the SFC on the transfer date; in practice, there may be need to be some phasing.

134. It should be noted that expenditure on modern apprenticeships is forecast to be particularly high in 2025-26, which pushes up the SDS's forecast of programme expenditure for that year. This is because modern apprenticeships vary in length, with some lasting for several years, and some of the delayed starts due to COVID-19 are still to complete their apprenticeships.

135. The operating costs attributed to the Bill, and forecasts of apprenticeship programme expenditure, are based on continuing current policies and processes. The apprenticeship programme costs are assumed to remain broadly the same (COVID-19 legacy aside) because the dominant share of the expenditure each year is on liabilities (i.e. apprenticeships started in previous years). This means there is a significant time lag to reduce expenditure, even if dramatic changes were made to the programme in 2026-27.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

136. Bringing together apprenticeship provision at the SFC, combined with new approaches to delivery, a better understanding of funding flows and a tighter focus on outcomes could deliver savings starting in 2027-28. The **indicative** savings shown in row 5 of Table 15 below assume 2% savings on the modern apprenticeship budget of c. £130 million per annum. The extent to which this is deliverable will depend on what duplication can be eliminated through bringing provision together and on policy decisions by the next Scottish Administration. Possible sources of savings include:

- a) Ceasing funding for some apprenticeships which do not align well with the Scottish Ministers' priorities; these will be easier to identify and manage when the SFC has responsibility for all apprenticeships. The Scottish Ministers would set out the policy objectives for apprenticeships when allocating grant funding under new section 12I of the 2005 Act, introduced by section 5 of the Bill, which should be reflected in the range of, and content of, Scottish apprenticeships frameworks prepared by the SFC.
- b) Using the powers in the Bill for the SFC to create frameworks at the request of employers and charge them reasonable costs in respect of that framework. This means that some apprenticeships could be at less cost to the Scottish Administration.
- c) Efficiencies from bringing together responsibility for securing modern apprenticeships and foundation apprenticeships, currently funded by both SDS and SFC. In particular, this is likely to streamline the way colleges are funded to deliver modern apprenticeships and address any inconsistencies in the level of funding for apprenticeships.

137. Row 6 of Table 15 shows the additional expenditure by the SFC on the apprenticeship programme, after the savings in row 5 have been applied.

Programme expenditure	Range	2025-26 £,m	2026-27 £,m	2027-28 £,m	2028-29 £,m	2029-30 £,m	2030-31 £,m
1. SDS BAU		107.2	97.5	97.4	97.1	97.1	96.3
2. SDS change		-	(48.8)	(97.4)	(97.1)	(97.1)	(96.3)
3. SDS reform		107.2	48.8	-	-	-	-
4. SFC change		-	48.8	97.4	97.1	97.1	96.3
5. Apprenticeship savings	Low	-	-	(1.3)	(2.6)	(2.6)	(2.6)
	High	-	-	-	-	-	-
6. SFC additional after savings	Low	-	48.8	96.1	94.5	94.5	93.7
	High	-	48.8	97.4	97.1	97.1	96.3

Table 15. SDS apprenticeship programme expenditure under BAU and under the reform trajectory, additional SFC expenditure and the potential savings on the modern apprenticeship budget. Inflation has not been applied to the savings. All figures are in **£, millions** (cash terms).

138. These savings would come from reduced expenditure from the modern apprenticeship budget on colleges, independent training providers and employers.

National Training Programmes

139. Section 3 of the Bill inserts new section 12C into the 2005 Act which gives the Scottish Ministers the powers to make grants to the SFC for the purpose of securing the delivery of NTP provision.

140. SDS and, in some cases the SFC, have delivered NTPs. To date, they have included the funding for, and oversight of, delivery of training to learners by a range of organisations. This could be through: securing training from the organisation; routing the funding via the learner; or supporting employers in delivering training.

141. By way of illustration, some of the NTPs delivered by SDS and the SFC include, or have included in the past:

- The **Flexible Workforce Development Fund** was available for apprenticeship-levy paying employers and later extended to SMEs. The fund provided these employers with workforce development training to upskill and reskill their existing workforce. SFC piloted the FWDF in academic year 2017-18 and continued to deliver through colleges until the fund ceased in academic year 2022-23. Over this six year period, the SFC allocated £76 million to colleges to deliver to meet employer needs. Over 2000 levy-paying employers and 2,500 SME employers accessed the SFC fund.
- The **National Transition Training Fund** was a £25 million fund to tackle the rise in unemployment caused by COVID-19 by offering short, sharp training opportunities for people to learn in-demand skills in the growth areas of Scotland's economy. The SFC allocated £17 million to colleges over the two years of the programme, with over 8,000 individuals accessing the fund.
- The **Young Persons Guarantee Fund** set an ambition that within two years every 16-24 year old in Scotland would either be in paid employment for a period of between 12 and 24 months, enrolled in education, actively involved on an apprenticeship or training programme, or engaged on a formal volunteering or supported activity programme. Between 2020 and 2023, the SFC allocated £22 million to meet the aims of the Fund.
- **Teaching Bursary in Scotland** to support individuals who are career changers undertaking a one year Postgraduate Diploma in Education (PGDE) in order to enter teaching in the hardest to fill teaching subjects. The scheme provides 84 bursaries of £20,000 each over the one academic year. The scheme is operational in 2024-25. This scheme is administered by SDS. Over the two years 2022-23 to 2023-24, this scheme had a budget of £4.7 million of which £3.3 million was spent to support over 154 bursaries.
- The **Land Based Pre-Apprenticeship Programme** is open for young people interested in following a career in agriculture. The programme offers 6 months paid employment along with industry-recognised certificated training and employability modules with a view to moving on to a modern apprenticeship or full-time employment in the industry. This programme is

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

operational in 2024-25, with a budget of £337k. The programme is administered by SDS and has a budget of £500k for 2025-26.

- **Digital Skills** provides match funding to inward investors with innovative advancing digital technologies and provides bespoke in-house training to upskill employees in relation to these technologies. It aims to enhance connectivity to make Scotland more attractive to potential inward investors. The scheme is operational in 2024-25. This scheme is administered by SDS and has a budget of £100k for 2024-25.

142. The next Scottish Administration will determine the level of funding of NTPs as a matter of policy; the Bill does not generate any additional costs or savings.

Part 1B: Other functions

Outline of Bill provisions

Summary of functions

143. Table 16 below summarises who has a significant role to play in the other functions of the SFC provided by Part 1 of the Bill. These functions are outlined briefly on the following pages, together with an assessment of their implications.

Duty or power in the Bill (Bill section)	The SFC	Fundable bodies / post-16 education bodies	Independent training providers and employer
To provide information on request (s. 6)	Has the power	Already applies	Applies in respect of SFC funded activity
Notifications to the SFC by post-16 education bodies (s. 7)	Is the recipient of the information	Has the duty to notify the SFC	No effect
Recommendations to fundable bodies (s. 8)	Has the power to make recommendations	Expected to consider (no duty in the Bill)	No effect
Monitoring the financial sustainability of post-16 education bodies (s. 9)	Has the duty	Must provide information requested	No effect
Guidance to fundable bodies (s. 10)	Has the power to issue guidance	Must have regard to the guidance	Must have regard to the guidance
Protecting the interests of learners; promoting knowledge exchange and innovation (s. 11)	Has the duty	May be affected by the approach taken by SFC	May be affected by the approach taken by SFC
Consideration of skills needs and socio-economic issues (s. 12)	Has the duty	May be affected by the approach taken by SFC	May be affected by the approach taken by SFC

Table 16. The new functions in the Bill and respective role played by the SFC, fundable bodies or post-16 education bodies, independent training providers and employers. The Scottish Administration and local authorities appear indirectly in this table as independent training providers and employers of apprentices.

Summary of costs

144. Table 17 (below) summarises the additional costs arising from other functions in Part 1 of the Bill. These quantifiable costs arise from the powers conferred upon the SFC to issue guidance and are explained further at paragraphs 167 and following.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Total costs from the other functions in Part 1 of the Bill	Low	8	16	16	16	17
	High	51	110	110	110	110

Table 17. Additional costs arising from other functions in Part 1 of the Bill. All figures are in £,000 (cash terms).

Costs on the Scottish Administration

145. The Scottish Administration hosts apprentices and can act as training providers for these apprentices. There are no cost implications for the Scottish Administration other than through its capacity as an employer of, or training provider for, apprentices (see discussion below).

Costs on local authorities

146. Local authorities host apprentices and can act as training providers for these apprentices. There are no cost implications for local authorities other than through their capacity as employers of, or training providers for, apprentices (see discussion below).

Costs on other bodies, individuals and businesses

147. With the exception of potential costs for the SFC in preparing and issuing guidance (see below), it is not possible to quantify the costs attached to these functions for the reasons set out in the following paragraphs.

148. With regard to its engagement with fundable bodies, the SFC is already active in many of these areas and the Bill is not generating new activity. For example, the SFC is already works with fundable bodies to try to ensure that fundable bodies are well-governed and financially sound. The Bill aims to improve the speed and efficiency of the engagement of the SFC. There are no obvious cost implications (other than in the issuing of guidance) because the combined effect of the Bill provision should be that both the SFC and fundable bodies use their available resources to better effect with a likely impact through improved outcomes for learners and education institutions. It is not the intention of the Bill to require the SFC or fundable bodies to commit more resource to these activities. It may be that they do need to commit more resource to these activities but precise costs are not currently known. It is the policy intention that, even if more resources were required, there would be a more than offsetting saving from averting greater work downstream.

149. With regard to new relationships with independent training providers and employers, much of the provision is expected to substitute for the information flows which those organisations have with SDS. That is to say, there are currently obligations on independent training providers and employers through the terms and conditions of contract. The Bill allows the SFC to continue with a very similar model for

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

apprenticeship policy and delivery, if that were the decision of a future Scottish Administration. The purpose of the provision in the Bill is to allow the SFC flexibility in how it secures delivery of apprenticeship provision, which could be through contract, through offer of grant or other means. It is not the intention of the Bill to require the SFC, independent training providers or employers to commit more resource to these activities. It may be that they do need to commit more resource to these activities but precise costs are not currently known. It is the intention to streamline, rather than complicate, apprenticeship delivery arrangements, including information flows.

150. The functions are considered in turn below for their cost (saving) impact on the SFC, fundable bodies and independent training providers and employers.

Information sharing

151. Under section 22(4) of the 2005 Act, colleges and higher education institutions and others are under a duty to provide the SFC with such information as it may reasonably require in connection with the exercise of its functions. Section 6 of the Bill modifies the 2005 Act to include new section 12K which in effect extends this duty to those receiving SFC funding to deliver NTPs, Scottish apprenticeships and work-based learning. This duty only extends to the activities for which the SFC is providing funding.

152. Fundable bodies are already under a similar duty in the 2005 Act.

153. The duty on other training providers to provide information only extends to activities funded by the SFC. For example, a training provider might only devote a small part of their business to deliver apprenticeship training. The SFC could only ask for information in relation to that part of their business.

154. Any costs for the SFC is already accounted for in the increased operational costs in Table 10. The SFC would normally be seeking information which SDS would have previously required and the SFC will receive the staff and resource to do this. A similar argument applies in respect of employers and independent training providers; the SFC would be asking for information which they previously provided to SDS, not least through the terms and conditions of contract. The reason for making this provision is to allow the method of securing apprenticeship provision to evolve, explained at paragraph 149 above.

Notifications to the Council

155. The SFC may not always be adequately notified of high risk situations by post-16 education bodies. This may risk potentially serious jeopardy to the body itself, other bodies or to the SFC's ability to perform its functions. Section 7 modifies the 2005 Act to include new section 14B to give the Scottish Ministers a power to require the post-16 education bodies (colleges and higher education institutions) to notify the SFC of certain matters, where these matters have been set out by the Scottish Ministers in subordinate legislation. Examples of such matters could be a major data breach through a

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

cyberattack or reaching a certain level of financial difficulty. There is no duty on these bodies unless until such regulations have been made and come into force.

156. The effect of the provision in new section 14B of the 2005 Act will depend on the matters which the Scottish Ministers require to be notified to the SFC by way of subordinate legislation. The specified matters for these regulations would be developed in consultation with the SFC and the post-16 education bodies, not least to ensure that they are practical and efficient. Furthermore the form and manner prescribed for the notifications is not intended to be onerous, for example it may be that an e-mail to the SFC setting out some basic information about the matter is all that is required from the post-16 education body. The objective of this provision is to ensure that information is provided to the SFC in a timely manner with a view to avoiding additional cost and work to the SFC and post-16 education bodies from failing to do so. The regulations are likely to prescribe matters in respect of which the SFC would expect to be notified at present but where there has been some uncertainty or inconsistent practice. The Delegated Powers Memorandum anticipates that the types of situations which might be prescribed include where a body:

- has experienced a major data breach through a cyberattack (external threat);
- has reached a certain threshold in a rapidly worsening financial viability situation (material change in its circumstances); or
- is planning voluntary or compulsory severance (action).

157. It is not anticipated that there would be additional costs from these regulations over time. There may be some costs brought forward by requiring action to be taken earlier than it might have been. For example, if regulations placed post-16 education bodies under a duty to notify the SFC of a major data breach or cyberattack, this might mean that the SFC were notified sooner than they might otherwise have been. The SFC could then advise other post-16 education bodies about the issue and help them to protect themselves before any harm is done to them. This is potentially a saving for the SFC and the other post-16 education bodies. It is very challenging to attach any kind of estimate to the costs brought forward as the duty is activated by actions or circumstances of which past trends are not necessarily a reliable indicator of future occurrences.

158. This duty does not extend to other training providers (who are not post-16 education bodies).

Recommendations to education bodies

159. Section 15 of the 2005 Act gives the SFC the power to secure “efficiency studies” and this provides a gateway for the SFC to monitor performance of the fundable bodies in respect of improving “their economy, efficiency and effectiveness” in operational matters.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

160. Section 8 of the Bill makes clear that the scope of reviews under section 15 of the 2005 Act may include consideration of the extent to which the needs and interests of learners are being met. It also creates a power for the SFC to issue recommendations to a fundable body following a study into its performance.

161. There are no additional costs from the power for the SFC to issue recommendations to a fundable body following a review into its performance under amendments to section 15 of the 2005 Act (made by section 8 of the Bill). This complements an existing power to address meetings of the governing bodies of fundable bodies. It might be expected that, in some of the circumstances in which the duty to notify the SFC arose under new section 14B, it would be appropriate for the SFC to conduct a review and make recommendations to the body. This is potentially a more efficient version of current arrangements whereby the SFC may or may not be notified of an important development and would, in due course, need to make any recommendations through addressing a meeting of the governing body.

Financial sustainability of post-16 education bodies

162. Section 9 inserts new section 15A into the 2005 Act to place the SFC under a duty to secure the monitoring of the financial sustainability of the post-16 education bodies (colleges and higher education institutions).

163. The new provision at section 15A connects with provision in amended section 15 and section 16 of the 2005 Act. The SFC may be moved to conduct an efficiency study under powers at section 15 by information which comes to its attention through monitoring of the financial sustainability under new section 15A. Equally, the SFC may be moved to do so by a notification received under new section 14B in relation to a financial deterioration. Taken together, these provisions could be used by the SFC to inform and issue recommendations to fundable bodies specifically addressing areas of concern around financial sustainability.

164. It is anticipated that the benefits (including financial) would, over time, outweigh any costs from the duty on the SFC to monitor the financial sustainability of post-16 education bodies under new section 15A of the 2005 Act (introduced by section 9 of the Bill). The SFC already engages with post-16 education bodies on financial issues. This new duty and provision potentially enables a greater efficiency in doing this and puts the SFC's role beyond doubt. For example, it makes it easier for the SFC to explain why it is requesting particular information from post-16 education bodies; the exercise of this monitoring duty will become a routine activity for the SFC and help to streamline existing information flows. These new provisions should help to avert, or reduce the scale of, issues arising in specific instances of some post-16 education bodies facing financial challenges through enabling earlier advice, assistance and intervention, where needed. There may be a very small additional cost in the shorter term to establish new monitoring arrangements (for example in considering and adjusting staff roles in the SFC) but it is anticipated that the same staff in the SFC as are currently engaged in matters relating to financial sustainability would support this new function. It is expected

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

that the Bill provision would lead to better outcomes in future; the benefits of this would vary case by case because the purpose of the provision is to try to avert financial problems and potential problems will vary by circumstance.

165. For example, timely notification of plans to make compulsory redundancies might allow the SFC to conduct a review into the performance and/or financial sustainability of the fundable body and make recommendations for changes (under new section 14B) which might avert the need for those redundancies and/or avoid greater financial difficulty.

166. This provision does not affect independent training providers and employers.

Guidance

167. At present, the SFC may issue guidance to the fundable bodies but it is purely administrative (i.e. it has no statutory basis).

168. Section 10 of the Bill inserts new section 17A into the 2005 Act to give the SFC the power to issue guidance to the fundable bodies and any other person in receipt of funding under the existing provisions of the 2005 Act or under the new functions conferred upon the SFC. This means that the SFC will be able to issue guidance to independent training providers and employers.

169. New section 17A places a duty on the SFC to consult the Scottish Ministers and the bodies or persons to whom the guidance relates before issuing the guidance. The SFC could choose to issue guidance covering all bodies and persons in receipt of SFC funding or to issue guidance targeted at particular types of organisation, such as fundable bodies providing fundable further education.

170. The SFC already issues guidance to fundable bodies on a range of matters. For example, the SFC has consulted and developed guidance on the implementation of the Tertiary Quality Enhancement Framework. The SFC also advises and engages with fundable bodies on a range of matters which may not be codified in a guidance document. There is no additional cost to placing existing administrative guidance onto a statutory footing. There is potentially a cost saving if advice provided on a one-to-one basis to fundable bodies was consolidated into guidance available to all.

171. However, the SFC may want to take the opportunity to issue additional guidance in respect of its new or revised functions and consider and develop guidance for independent training providers and employers.

172. These additional costs have been estimated as follows. The low cost assumption is that four additional guidance documents would be produced every two years, requiring 35 hours of middle management staff time at the SFC per document and cost to publish the draft for consultation, and final, guidance documents of £3,000 per

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

publication. This cost of publication is based on the cost to the Scottish Government of publishing of similar documents. The exact cost depends on the document length, formatting and style.

173. The high cost assumption is that eight additional guidance documents would be produced every year, requiring 70 hours of more senior staff time at the SFC per document and cost to publish the draft for consultation, and final, guidance documents of £4,000 per publication.

174. Table 18 (below) summarises the additional costs for the SFC in producing statutory guidance.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Statutory guidance	Low	8	16	16	16	17
	High	51	110	110	110	110

Table 18. Additional costs for the SFC in producing statutory guidance, given its wider responsibilities. All figures are in £,000 (cash terms).

175. With regard to the implications for fundable bodies, independent training providers and employers, any additional guidance should be helpful to them in going about their business. It is not the intention that guidance would place any additional burdens on them. For example, guidance might help these organisations to comply with a statutory duty more efficiently and effectively.

Support of learners' needs and knowledge exchange

176. The SFC must have regard to a range of matters in carrying out its functions, including, for example: skills needs in Scotland; issues affecting the economy of Scotland; and social and cultural issues in Scotland.

177. Section 11 of the Bill amends section 20 of the 2005 Act so that the SFC is additionally to have regard to the following in the exercise of its functions:

- protecting and promoting the interests of current and prospective learners; and
- promoting knowledge exchange and innovation from the research of, and among, post-16 education bodies.

178. With regard to the interests of learners, this is a change of emphasis and does not have any cost implications for the SFC. For example, these might be relevant factors to consider in determining the terms and conditions of grant funding or considering what capital projects to take forward.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

179. With regard to knowledge exchange, this provision is consistent with the SFC's existing practice and ongoing activity to promote knowledge exchange and innovation. The SFC does this through investment in initiatives such as Innovation Centres, Interface and Converge, which is designed to harness the research to deliver impact.

180. There are no general or quantifiable costs to post-16 education bodies, other fundable bodies, independent training providers or employers. It is possible that these new duties on the SFC might affect their approach to balancing competing factors in weighing up a funding decision in future.

Consideration of skills needs and socio-economic issues

181. Section 20 of the 2005 Act requires the SFC to have regard to: skills needs in Scotland; issues affecting the economy of Scotland; and social and cultural issues in Scotland. In both cases, the need or issue needs to exist or likely to exist in the future and be capable of being addressed through provision of fundable further education or fundable higher education. Section 12 of the Bill expands this to include being capable of being addressed through provision of programmes of training for employment, Scottish apprenticeships or work-based learning.

182. Similar arguments to those made in respect of section 11 apply with regard to the modifications made by section 12 of the Bill to section 20 of the 2005 Act; the scope of "skills needs" and "issues" is expanded to reflect the SFC's expanded remit. These changes are designed to ensure that the particular matters to which the SFC is to have regard under section 20(1) remain coherent. This might result in a change of emphasis in the way that the SFC exercises some of its functions and does not have any direct cost implications.

Amendment of lists of fundable bodies

183. The headings in schedule 2 of the 2005 Act distinguish between three types of institution: those formerly eligible for funding by the Scottish Further Education Funding Council; those formerly eligible for funding by the Scottish Higher Education Funding Council; and other institutions. Whilst the headings do not have any legal effect, they appear to contribute to the misconception that funding of institutions under the 2005 Act is limited to the fundable further or higher education depending on the type of educational institution.

184. Section 13 of the Bill substitutes schedule 2 for a consolidated single list of current fundable further education institutions and fundable higher education institutions in alphabetical order (with some changes to reflect institutions that have closed, merged or been renamed). There are no changes to legal effect from this and no financial consequences.

Part 2: Governance of the Council

Outline of Bill provisions

185. This Part of the Bill makes provision for changes to governance of the Council. The legislation provides for appointment to the Scottish Funding Council itself, but those members are commonly referred to as the SFC Board, including by the SFC.

Members' term of appointment

186. Under the 2005 Act, the Scottish Ministers can appoint Council members for an initial appointment period of up to four years. But reappointments are limited to one single further period not exceeding four years. Section 14 of the Bill amends paragraph 2 of schedule 1 to the 2005 Act to remove the limitation of a single second appointment term and allow Ministers to reappoint a member for a number of shorter periods, should that be appropriate. Duration will continue to be limited to the maximum period of appointment set by the Ethical Standards Commissioner's Code of Practice on Ministerial Appointments to Public Bodies, which is currently eight years.

Members' skills and experience

187. Under the 2005 Act, the Scottish Ministers must have regard to the desirability of appointing Council members who have experience of, and shown capacity in, a range of matters, including the provision of further and higher education. Section 15 of the Bill amends paragraph 3 of schedule 1 of the 2005 Act to expand the range of potentially relevant skills and experience of Council members to cover Scottish apprenticeships and work-based learning.

Conflicts of interest

188. A significant number of Council members are actively employed or engaged in the college or university sectors, potentially creating conflicts of interest. Amendments to paragraph 3 of schedule 1 of the 2005 Act, made by section 15 of the Bill, signify a shift away from an emphasis on appointing Council members who are actively employed or engaged in the college or university sectors, whilst retaining flexibility to ensure relevant expertise.

Co-opted members

189. Section 16 inserts new provision paragraph 2A into schedule 1 of the 2005 Act. This gives the SFC the power to co-opt members (subject to the approval of the Scottish Ministers) in order to access particular expertise, where appropriate.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Apprenticeship committee

190. At present, SDS, the Scottish Apprenticeship Advisory Board, the Standards and Frameworks Group and the Apprenticeships Approvals Group lead on apprenticeship definition, standards and delivery.

191. Section 17 inserts a new paragraph 12A in schedule 1 of the 2005 Act to place the SFC under a duty to establish and maintain a new apprenticeship committee, which it is expected will take on some of the functions and responsibilities of various of the bodies and groups in the current apprenticeships landscape. The Scottish Ministers will set the strategic policy outcomes as part of providing grant funding to the SFC.

Summary of costs

192. Table 19 (below) summarises the additional costs (savings) arising from Part 2 of the Bill.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Total costs (savings) from Part 2	Low	(48)	(100)	(110)	(110)	(110)
	High	33	57	58	59	60

Table 19. Additional costs (savings) arising from Part 2 of the Bill. All figures are in £,000 (cash terms).

Costs on the Scottish Administration

Appointment of Council members

193. The Scottish Ministers are responsible for appointing, and reappointing, the members of the Council. The 2005 Act requires that there be no less than 11 and no more than 14 members of the Council, in addition to the chief executive and chair. The maximum term for a Council member is eight years and this will not change under the Bill. The pattern of appointments and departures is not even across the years; six Council members are due to retire from the Council in 2026.

194. The Scottish Administration plans to run four appointment rounds (of new members) and four reappointment rounds (of existing members) over an eight year period under current arrangements. The significant cost in appointment and reappointment rounds is staff time. Appointments are much more resource intensive than reappointment rounds. The cost of an appointment round is estimated at £8,600 in Scottish Administration staff time and the cost of a reappointment round at £300.

195. The greater flexibility provided by changes made by the Bill in reappointment terms will have benefits in terms of the Council's management but it will not necessarily generate any cost savings. The low cost estimate assumes that there is no change to

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

the pattern of appointment and reappointment rounds and therefore there is no additional cost. The high cost estimate assumes that there may be one additional appointment round and one additional reappointment round required in the eight year period, perhaps to help transition the representation on the Council to reflect the SFC's new functions and duties.

Co-opted members

196. Section 16 of the Bill amends the 2005 Act to give the SFC the power to co-opt other members, subject to the approval of the Scottish Ministers. The costs to the SFC of doing this are set out later. There is a modest cost to the Scottish administration in considering approving SFC's proposal. The assumptions are set out at paragraph 200 below; the cost is estimated to range between £400 and £700 per year.

Summary

197. Table 20 (below) summarises the additional costs for the Scottish administration in the appointment and reappointment of members of the Council and in considering requests from the SFC with regard to co-opting members; the eight year costs are annualised.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Appointment and reappointment of Council and co-opted members	Low	0.190	0.400	0.400	0.410	0.420
	High	2.700	5.500	5.700	5.800	5.900

Table 20. Additional costs (savings) for the Scottish Government in the appointment and reappointment of members of the Council and considering the SFC's request to co-opt members. All figures are in £,000 (cash terms).

Costs on local authorities

198. There are no costs to local authorities.

Costs on other bodies, individuals and businesses

Appointment of Council members

199. The SFC, as well as the Scottish administration, play a role in, and incur costs in respect of, appointment of Council members. In particular, the chair of the SFC is involved in critical points of the recruitment process, including interviews, and senior staff are involved at other stages, including advertising and onboarding. The cost of an appointment round is estimated at £12,000 in SFC chair and staff time, primarily due to the need to provide a comprehensive induction, and the cost of a reappointment round at £400. (These costs are additional to the costs incurred by the Scottish administration).

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Co-opted members

200. Section 16 of the Bill amends the 2005 Act to give the SFC the power to co-opt other members, subject to the approval of the Scottish Ministers. There may be up to two co-opted members at any given time. There are recruitment costs and remuneration costs in respect of co-opted members.

201. The recruitment costs include preparing the business case for the Scottish Ministers and time spent on the induction of the co-opted member. The induction for a co-opted member does not need to be as comprehensive as for a full member; it is expected that it would be focused on matters related to their field of expertise and in relation to which they were expected to advise or challenge the Council. The recruitment cost is estimated at £2,500 in SFC staff time.

202. This Financial Memorandum assumes that co-opted members would be remunerated at the same day rate as members appointed by the Scottish Ministers. The day rate for Council members is currently £360 (approaching the Tier 1 maximum for public appointments). The Council has six regular meetings each year; in 2024, there were two further ad hoc meetings.

203. For the lower cost estimate, the Scottish Government has assumed that: there is one co-opted member in post around half the time, on average; they are required to work eight days per year; and that there is one co-opted member appointment each year. Under this assumption, there might be a co-opted member appointed for six months of one year and then a gap of six months before another was appointed.

204. For the higher cost estimate, the Scottish Government has assumed that: there are two co-opted members in post at all times; they are each required to work 16 days per year; and that there are two co-opted member appointments each year. Under this assumption, the SFC is making full use of the powers in the Bill.

Apprenticeship committee

205. The SFC has two statutory committees under the 2005 Act: a skills committee, known as the Skills, Enhancement, Access and Learning (SEAL) Committee, established under paragraph 11 of schedule 1; and a research committee established under paragraph 12 of schedule 1. Paragraph 13 gives the SFC powers to establish other committees for any purposes relating to its functions. Four further committees have been established covering: finance; audit and risk; capital; and remuneration.

206. Changes made by section 17 of the Bill require the SFC to establish an apprenticeship committee. In terms of estimating the cost of establishing and operating this new committee, the skills committee provides a model. The skills committee comprises of 11 members, six of whom are also Council members and five of whom are external. Only external members who are not in paid employment can claim remuneration. All five of the external members of the skills committee are in paid

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

employment. The skills committee meets four times each year. All committee members can claim travel expenses for attending committee meetings.

207. The costs are based on the apprenticeship committee having twelve members, each of whom are appointed for a period of three years and can be reappointed for one further period of three years.

Operating costs

208. Paid external members are currently entitled to a fee of £90 per day and this has been taken to be the lower cost estimate; the higher cost estimate is the maximum of the Tier 2 public bodies pay scale (£278 per day). The SFC staff costs in supporting meetings are estimated to be around 24 hours across various grades per meeting. The low cost estimate for travel expenses is around £170 per annum based on current committee average costs; and the higher cost estimate is around £5,000 based on one year of Council expenses.

209. It is assumed that Council members will be paid at their Council day rate for the same number of days work as external members.

210. The lower cost estimate is derived from assuming: the apprenticeship committee meets four times per year and requires eight days work per year from each member; and there is only one external committee member requiring remuneration and this is at the Tier 2 minimum. The lower cost is estimated at £24,000 per year.

211. The higher cost estimate is derived from assuming: the apprenticeship committee meets six times per year and requires 12 days work per year; and there are three external committee members requiring remuneration and this is at the Tier 2 maximum. The higher cost is estimated at £36,000 per year.

Recruitment costs

212. The recruitment costs are based on the SFC running three appointment rounds over a six year period. The most significant cost is SFC staff time. The cost of an appointment round is estimated at £5,300 in SFC staff time.

213. The lower cost estimate assumes that there are six external members and the higher cost estimate assumes that there are nine. The lower cost is estimated at £5,300 per year and assumes there are no external recruitment costs, i.e. no need to advertise. The higher cost is estimated at £6,100 per year and also includes an estimated cost of £500 per external member for advertising the post.

214. The apprenticeship committee would need to be established in 2026-27, with all external members recruited in that year. For this purpose, the Scottish Government has assumed an additional appointment round over and above the regular pattern, generating additional costs ranging from £5,300 to £9,800.

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Summary: costs on the SFC

215. Table 21 (below) summarises the additional costs (savings) for the SFC in appointment and reappointment of Council members, co-opting members and in the establishment and operation of the apprenticeship committee.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Appointment and reappointment of Council members	Low	-	-	-	-	-
	High	3.2	6.5	6.6	6.8	6.9
Co-opted members	Low	2.1	4.2	4.3	4.4	4.4
	High	8.6	17.6	17.9	18.3	18.6
Establishment and operation of the apprenticeship committee	Low	20.5	36.2	36.8	37.4	38.1
	High	31.9	54.9	55.7	56.6	57.6
Total	Low	22.5	40.4	41.1	41.8	42.5
	High	43.7	78.9	80.3	81.7	83.1

Table 21. Additional costs (savings) for the SFC in appointment and reappointment of Council members, co-opting members and in the establishment and operation of the apprenticeship committee. All figures are in £,000 (cash terms).

Size of the SDS Board

216. As a consequence of the transfer of responsibility for NTPs and apprenticeships from SDS to the SFC, and noting that over half of the SDS budget (of c. £200 million per annum) will transfer to the SFC in support of this, the SDS Board might be smaller in future. At present, there are 16 members and the total cost of the Board in SDS's 2022-23 accounts was £162,000. The SFC can have no more than 16 members of its Council, including the chief executive and chairing member, under the terms of paragraph 2(1) of the 2005 Act. Given the transfer of a significant proportion of SDS's responsibilities and budget to the SFC, it might be anticipated that the SDS Board could have fewer members in future. The lower cost estimate (greater saving) is derived from assuming that the Board has 12 members in future, whereas the higher cost estimate (lower saving) assumes the Board has 14 members. There is a marginal saving from reduced onboarding and induction costs for new Board members; there is no reason to assume any significant change to costs associated with appointment rounds.

217. The lower cost (saving) estimate is £(41,000) and the higher cost estimate is £(20,500); i.e. a lesser saving.

Offsetting savings from the apprenticeship committee

218. The precise functions of that committee are expected to evolve but it is anticipated that the apprenticeship committee will have a role in overseeing the preparation of Scottish apprenticeship frameworks.

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219. This apprenticeship committee is expected to take on some of the functions and responsibilities of various of the bodies and groups in the current apprenticeships landscape, such as the Standards and Frameworks Group (SFG) and the Apprenticeships Approvals Group (AAG). Whilst the detail of this will be worked out through implementation, it is expected that some of the work currently undertaken by SDS to service these groups will be superseded by the work required to support the apprenticeship committee.

220. The lower cost estimate (a saving) is derived from assuming the full time equivalent of one senior member of staff is no longer required for this purpose. The higher cost estimate (nil saving) assumes that there is no scaling back of this work. Savings are expected to occur from the transfer date.

Summary: savings from SDS

221. Table 22 (below) summarises the savings from a scaled back SDS Board and in consequence of establishing the apprenticeship committee.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Remuneration of SDS Board members	Low	(21)	(44)	(45)	(45)	(46)
	High	(11)	(22)	(22)	(23)	(23)
Offsetting savings from establishing the apprenticeship committee.	Low	(50)	(100)	(100)	(100)	(110)
	High	-	-	-	-	-
Total	Low	(71)	(140)	(150)	(150)	(150)
	High	(11)	(22)	(22)	(23)	(23)

Table 22. Savings from operating with a smaller SDS Board and from the establishment and operation of the apprenticeship committee. All figures are in £,000 (cash terms).

Part 3: Student Support

Outline of Bill provisions

222. Student support is a collective term that includes payment to cover the tuition fee costs of the course, bursary support, tuition fee loans (where relevant) and maintenance loans. While the Student Awards Agency Scotland (SAAS) is currently responsible for the administration of student support for students studying at higher education institutions, student support for those studying at further education institutions and those undertaking apprenticeships is currently administered via SFC and SDS.

223. A number of students undertake further and higher education courses run by approved private providers based in Scotland or in rUK; these are education providers that are not post-16 education bodies in terms of the 2005 Act.

224. Approximately 5,000 higher education students studying at private providers were funded by SAAS in 2023-24. This is around 3% of the students funded by SAAS. The number of students undertaking FE courses at private providers is not known; FE student support is administered locally by colleges using grants provided by SFC.

225. There are 21 private providers designated to provide full-time HE courses and a further 120 private providers have been designated to provide part-time HE courses. The majority of these arrangements were established prior to devolution. The practice of designation has evolved from the fact that these providers generally offered a type of provision that was not commonly delivered by publicly-funded colleges or universities. This has been mainly, but not exclusively, in respect of creative courses such as dance, musical theatre and drama.

226. Section 18 of the Bill gives the Scottish Ministers a power to designate a private provider of further or higher education on application from that provider through a new section 74A inserted into the Education (Scotland) Act 1980 (“the 1980 Act”). The effect of a designation is that the private provider is then treated in the same way as a fundable body for the purposes of considering the eligibility of students at that private provider for student support. The Bill puts existing custom and practice around private HE provider designation effected by SAAS onto a clearer legislative footing, with powers for the Scottish Ministers to set out the process of applying for designation and designating providers in regulations. Therefore, there are no new costs attributable to this provision.

227. New section 74A(4) in the 1980 Act also gives the Scottish Ministers a power (exercised by way of regulations) to charge private providers a fee to apply for designation to cover the cost of administering the processing of their application. This is a departure from current arrangements and would be a new cost, were a fee to be charged; costs and fees are estimated below.

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228. In respect of rUK private providers where Scottish students want to study, the intention is that they would be deemed to be designated if they have been approved to receive public funds by the Office for Students for England, the Medr (the Commission for Tertiary Education and Research) for Wales, or the Department for the Economy in Northern Ireland. The policy intention is that the regulations made under new section 74A(4) will provide that, if these circumstances were met, they would not need to apply for designation from the Scottish Ministers. There would be minimal work for SAAS in recognising them and no fee to be paid by the private providers themselves.

229. Sections 19 and 20 of the Bill also widen the corresponding delegation and direction-making powers in the 1980 Act as a consequence and for consistency with existing powers in that Act. This would enable the Scottish Ministers to direct the SFC (or another body) to administer student support on their behalf, or transfer or delegate responsibility, in future.

Summary of costs

230. Table 23 (below) summarises the additional costs arising from Part 3 of the Bill.

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Application for designation	Low	6.4	13.0	13.0	14.0	14.0
	High	15.0	31.0	32.0	32.0	33.0

Table 23. Additional costs arising from Part 3 of the Bill. All figures are in £,000 (cash terms).

Costs on the Scottish Administration

231. There are 21 private providers designated to provide full-time HE courses. These providers are subject to quality checks and inspections by Education Scotland. The costs of developing and piloting the inspection regime have been met by the Scottish Administration. The Education (Scotland) Bill includes provision for these private providers to be charged for inspections.

232. Private providers of full-time HE courses will be required to reapply for designation every two years. Given the rigor of the inspection process and the fees that will be attached to it, the application process for designation will be straightforward and private providers of **full-time** HE courses will not be charged for applying. The cost of processing their application for designation is estimated to be £180 per application in staff time and this will be met by the Scottish Administration.

233. Table 24 (below) summarises the additional costs for the Scottish Administration in processing applications for designation. The low cost estimates are based on 10 applications per year which are straightforward to process (£180 each on average). The high cost estimates are the same because all cases are anticipated to be straightforward.

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Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Application for designation	Low	0.9	1.9	1.9	2.0	2.0
	High	0.9	1.9	1.9	2.0	2.0

Table 24. Additional costs for the Scottish Administration in processing applications for designation. All figures are in £,000 (cash terms).

Costs on local authorities

234. There are no costs on local authorities, unless they are seeking designation to provide part-time HE courses. (There are two local authorities with departments designated as private providers at present.) In any such cases, the fee payable would likely be as set out at paragraph 237 below.

Costs on other bodies, individuals and businesses

235. There are 120 private providers designated to provide part-time HE courses. Given the relatively small scale of these operations, the inspection regime for full-time HE course providers would not be appropriate. Instead, a Designation Review Form is being rolled out with the intention that private providers reapply for designation every two years.

236. As these providers will not be paying for any inspection by Education Scotland, it is proposed that they will pay the costs of processing their application for designation. The cost of processing their application for designation is estimated to average out at £180 per application in staff time if all the cases were straightforward and £460 if some of the cases were more complex. The fee charged per private provider of **part-time** HE courses will be a single flat rate estimated to be between £180 and £460 every two years.

237. Table 25 (below) summarises the additional costs for private education providers in paying a fee to apply for designation. The low-cost estimates are based on 60 applications per year which are straightforward to process (£180 each on average) and the high cost estimates are based on the same number of applications varying in complexity and including some complex cases (£460 each on average).

Activity	Range	2026-27 £,000	2027-28 £,000	2028-29 £,000	2029-30 £,000	2030-31 £,000
Application for designation	Low	5.5	11.0	11.0	12.0	12.0
	High	14.0	29.0	30.0	30.0	31.0

Table 25. Additional costs for private education providers in applying for designation. All figures are in £,000 (cash terms).

238. There are no costs on other bodies, individuals or businesses.

Glossary

239. In this Financial Memorandum:

- “the 1980 Act” means the Education (Scotland) Act 1980;
- “the 2005 Act” means the Further and Higher Education (Scotland) Act 2005;
- “business as usual” means the continuation of current arrangements and planned changes, as if the plans for reform and the Bill did not exist, c.f. the reform trajectory defined below;
- “FE” means further education;
- “FISSS” means the Federation for Industry Sector Skills and Standards;
- “fundable body” is defined at section 6 of the 2005 Act and means colleges, higher education institutions and regional strategic bodies;
- “gross staff costs” means the total cost of employing staff including salary, employer NI and pension contributions;
- “HE” means higher education;
- “independent training provider” means a training provider other than a higher education institute or college;
- “NTP(s)” means National Training Programme(s) which are programmes of training for employment in the Bill;
- “post-16 education body” is defined at section 35 of the 2005 Act and means colleges, assigned colleges and higher education institutions;
- “the reform trajectory” means the arrangements at any given point in time (before or after the transfer date) as the plans for reform and the Bill progress, c.f. business as usual defined above;
- “SAAS” means the Student Awards Agency Scotland;
- “the SFC” means the Scottish Further and Higher Education Funding Council, established by the 2005 Act;
- “SDS” means Skills Development Scotland;
- “the transfer date” means the day on which responsibilities move from SDS to the SFC in respect of NTP and apprenticeship functions and is assumed for the purposes of this Financial Memorandum to be 1 October 2026; and
- “the transition period” means the 18 month period from 1 October 2025 (one year in advance of presumed commencement) to 31 March 2027 (six months after presumed commencement).

This document relates to the Tertiary Education and Training (Funding and Governance) (Scotland) Bill (SP Bill 57) as introduced in the Scottish Parliament on 5 February 2025

Tertiary Education and Training (Funding and Governance) (Scotland) Bill

Financial Memorandum

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