

12 FEBRUARY 2018 MEETING

SKILLS FOR THE FUTURE

REPORT OF COUNCILLOR DEBBIE WILCOX

AGENDA ITEM: 7

REASON FOR THIS REPORT

1. To secure the agreement of Joint Cabinet to the development of a business case to take forward the Cardiff Capital Region Skills for the Future Programme.

SUMMARY

2. The Skills for the Future Project will provide region-wide school engagement, support for businesses and a skills investment fund to deliver over 10,000 additional apprenticeships, graduate internships and upskilled employees in the private sector. Such additional employment and training will enhance innovation, productivity and economic growth in the Cardiff Capital Region while school engagement will ensure that regional skills supply becomes more aligned with the skills that employers in the region are demanding.
3. The unique selling point of the Skills for the Future Project is fourfold:
 - School, pupil and parent engagement to provide a high-quality and impartial careers advice and guidance service to address the regional skills mismatch
 - impartial advice and guidance to businesses through skills brokerage
 - tailored support to address barriers to participation, particularly for SMEs
 - increasing the number of apprenticeship and graduate internship opportunities in the region by 10,000
4. The perceived lack of effective advice and guidance for young people in the region combined with the undersupply of young people interested in doing apprenticeships or pursuing careers in priority sectors has the potential to further exacerbate the region's skills mismatch. Moreover, the uncertainty for skills supply associated with Brexit, automation and the increasing significance of digital skills enhances the imperative for an intervention to deliver **an employer-led skills system in the Cardiff Capital Region.**

5. Employer surveys have consistently cited untapped recruitment potential in the private sector, particularly amongst SMEs (small and medium enterprises), due to the persistence of recruitment barriers, poor service or mixed messages from apprenticeship framework providers and a lack of appreciation of the well-documented business benefits apprentices, graduates and upskilling existing employees can offer. The Skills for the Future Project will release this untapped recruitment potential by actively engaging businesses and providing tailored and impartial human resource support services and grants to SMEs.
6. The scope of the project requires delivery in phases. Key elements, such as school and business engagement, are currently untaken to various extents in local authorities across the Cardiff Capital Region. The Skills for the Future Project will initially work with volunteer local authorities to develop an efficient and effective model that can be applied consistently across the region building on existing best practice.

BACKGROUND

7. The Cardiff Capital Region City Deal Heads of Terms was signed in March 2016 and outlines the joint commitments made by the ten local authorities of the Cardiff Capital Region, the UK Government and the Welsh Government to unlock £1.2bn of investment to increase the performance of the city-region economy. The City Deal commits to delivering up to 25,000 new jobs and leverage of an additional £4bn of private sector investment. The City Deal is also seeking to increase GVA by a minimum of 5% across the region.
8. The specific commitment to skills within the City Deal Heads of Terms is as follows: “Developing a skilled workforce and tackling unemployment. The Cardiff Capital Region Skills and Employment Board will be created (building on existing arrangements) to ensure skills and employment provision is responsive to the needs of local businesses and communities.”
9. The Growth and Competitive Commission also made specific recommendations with reference to skills and employability:

“Investment in developing the skills of the current and future workforce of the Capital Region is a priority for the Cardiff Capital Region City Deal and vital to improve both competitiveness and inclusion. The Cardiff Capital Region should therefore:

 - Task the proposed Employment and Skills Board with working with employers and education providers to ensure that provision is aligned amongst all relevant skills provision outside schools and higher education and that skills investment is complementary to the economic strategy of the city-region.
 - Task the Learning, Skills and Innovation Partnership and then the Employment and Skills Board to coordinate current funding streams to invest in skills and support people from all ages into work and improve outcomes for those in work.
 - Focus on provision of education and training for adults, including parents of school age children who play a major part in reducing intergenerational poverty.

- Require all Capital Region funded capital projects to support a minimum number of apprenticeships, dependent on the size and scale of the project.
 - Invest in good quality careers advice in schools from year 8 onwards, linking careers advice to the strategic need of the region”
10. The City Deal is subject to five year ‘Gateway Reviews’ by UK Government. The Gateway Reviews evaluate the impact of the City Deal funding not pre-allocated to the South East Wales Metro programme. It is therefore essential that investment decisions contribute towards the agreed economic objectives in order to release UK Government element of the City Deal Investment Fund.

EVIDENCE BASE

The regional skills mismatch and demand from priority sectors

11. In recent years, skills and training delivery has been based upon learner demand as opposed to strategic need in the Cardiff Capital Region. Consequently, sectors that are most significant to the Cardiff Capital Region in terms of productivity and size - **advanced materials and manufacturing, construction, financial and professional services, ICT/digital and the human foundational economy** - are significantly undersubscribed relative to projected demand.
12. A decreasing number of pupils are taking computer-related and STEM subjects (science, technology, engineering and mathematics) and **just 5% of year 11 school children are even considering an apprenticeship**. If we are to increase skill levels in the key growth sectors, a significant increase in the uptake of apprenticeships is needed through encouraging schools students to understand the benefits and opportunities created through vocational routes of employment.
13. The Growth and Competitive Commission and LSKIP stress the need to improve access to careers advice to promote key sectors, key subject areas and apprenticeships to young people and those who influence them to offset the forecasted regional skills shortages and maximise the potential for regional productivity gains.
14. Such findings are supported by Nesta who note that despite key challenges for developed countries including automation, globalisation, ageing populations, urbanisation, and the increasing significance of the green economy, these factors cumulatively present an opportunity for growth if two key conditions are met in skills systems:
- comprehensive labour market intelligence on skills needs is collated
 - education and training systems are flexible enough to respond appropriately to such information

Barriers to businesses taking on apprentices and graduates

15. There is significant untapped potential for additional recruitment in the Cardiff Capital Region. **Only 13% of employers currently utilise apprenticeships** and AECOM notes that over-reliance on public sector employment, particularly for graduate level employment, is a regional weakness that could be exacerbated in the context of continuing public sector cuts.
16. Issues reported by businesses in the Cardiff Capital Region include:
 - persistent sector-specific recruitment issues
 - apprenticeship framework providers offering training without understanding local businesses' needs, not being flexible enough, being perceived as slow to react to training enquiries and not being up-to-date
 - perception that there are too many providers looking for work
 - diminishing business support services within local authorities
17. **SMEs are particularly significant to the Cardiff Capital Region's economy as they make up about 95% of companies and are the biggest creator of new jobs.** Despite this, there are many issues facing SMEs in the region:
 - skills gaps and recruitment issues filling such gaps
 - obstacles to additional recruitment including perceived administrative and employment issues, time-constraints, a lack of support and never having considered hiring an apprentice or graduate
 - a lack of appreciation of graduates' value
18. 71% of SMEs which were surveyed said they would be interested in hiring an additional apprentice if human resource support were provided while 78% said they would if provided with human resource support and a grant. The current system of accessing and providing apprenticeships is clearly not working for the majority of businesses and young people in the region. We need to address this in balance to not only develop the skills of the local workforce but also increase the capacity of SMEs to innovate, attain productivity gains and to grow.

REGIONAL IMPACT

Financial impact

19. The Skills for the Future Project will provide significant leverage of private sector investment through apprenticeship and graduate intern salaries in addition to the salaries of additional jobs which are created.
20. An evaluation of a school engagement and SME support-based apprenticeship initiative in the Leeds City Region estimated the long-term economic value added of each apprenticeship was £42,800 - approximately 22 times the initial cost.

21. There are significant returns on public money invested in apprenticeships with each pound generating a £26 - £28 return. Cumulatively, apprenticeships in Wales generate an estimated £1.1bn per year.
22. Businesses that take on apprentices report significant benefits including: improved product or service quality (72%), improved productivity (67%), improved staff morale (66%), improved staff retention (60%), improved ability to attract staff (54%), new ideas being brought to the organisation (53%), improved image in the sector (49%), business won (23%) and overall wage bill lowered (19%) The National Training Federation for Wales also notes the reported soft benefits to apprentices in Wales with 86% of apprentices stating their self-confidence had improved due to their apprenticeship and 70% saying the apprenticeship was very relevant to their long-term career goals.
23. A graduate intervention in the Sheffield City Region which targets SMEs delivers internships which last an average of 6 months, paying an average of £16,000pa, with 75% of interns going on to secure employment within the SME after their internship and receiving significant improvements in their earnings. The programme describes its key aims as delivering productivity gains, innovation and economic growth.

PROPOSITION

24. The unique, **impartial** roles local authorities play in providing business support services and school engagement presents an opportunity for the Skills for the Future Project to build on existing practice while enhancing local authority capacity.
25. The Cardiff Capital Region 'Skills for the Future' proposal **aim** is to address the failing of the current apprenticeship and graduate system by:
 - driving up interest and increasing the numbers of apprenticeship and graduate opportunities available in the region and encouraging the young people in our communities to participate and benefit.
 - encouraging increases in productivity by connecting businesses and City Deal project/investment partners with development opportunities that support their needs and aspirations.
26. **Activities include** a business engagement and skills brokerage service, school engagement, access to apprenticeships and graduate internships plus additional support and incentives for SMEs.
27. **Key objectives** include achieving increases in the number and range of apprenticeship and graduate employment opportunities; greater alignment between the skills of the local labour market and the skills demanded by industry; targeting growth and priority sectors to develop technical, specialist and higher level skills opportunities; improvements in productivity, brokering solutions to upskill the existing workforce, promoting greater investment in skills and increase skills utilisation; increased SME participation and engagement.

28. **A greater return on investment** will be achieved by targeting growth sectors and priority sectors in the Cardiff Capital Region as identified by LSKIP.

Target Areas

29. The range of services proposed is in response to evidence of regional demand plus examples of successful practice from skills programmes across City Deals in other locations. The proposal currently includes:

- **Regional skills brokerage service** - A local authority led and therefore impartial service that works with businesses, projects and investments, in conjunction with economic development and business support services, to secure appropriate and relevant skills solutions through education, training and other providers. Connecting both employees and businesses to regional skills projects and programmes that invest in upskilling of the existing workforce to support progression and improvements in productivity.
- **School engagement** - activities to encourage career choices that align with future demand whilst promoting parity of esteem between different pathways to help young people attain quality and sustained employment.
- **Access to apprenticeships including shared apprenticeships** – employer engagement to increase the number and range of apprenticeships available in the region and schools engagement to increase the number of young people choosing apprenticeship pathways. Delivered in conjunction with work based learning providers and extending access through shared apprenticeship programmes, such as Y Prentis and Aspire, where appropriate.
- **Graduate internship programme** – employer engagement to increase the number of graduate opportunities available including placements and internships, delivered in conjunction with our Universities. To encourage greater graduate retention within the region and improve the skills utilisation of graduates by businesses to support improvements in innovation and productivity.
- **Regional SME support** – to encourage apprenticeship and graduate take up by SMEs there will be a financial incentive and provision of a human resource support service. In the immediate term the service will support SMEs to maximise use of the current Welsh Government apprenticeships subsidy of up to £3,500. Through City Deal, it is intended that a skills investment fund will be created for SMEs to support business development, with a proposed £1,000 subsidy for new graduate employment. The human resources support service would be available to those SMEs wishing to employ apprenticeships and graduates but who do not have the capacity to support the associated administrative demands.
- **Skills Investment Fund** – a co-investment fund for SMEs that supports the upskilling of existing employees to meet technical, specialist and higher level skills needs, that can be accessed in the absence of other sources of funding. A fund of last resort to support co-investment in business led development linked to the

achievement of growth, productivity and performance improvements.

Implementation will be in phases from September 2018.

30. The in-depth information on skills needs and high-growth sectors in LSKIP's annual employment and skills plan provides a robust base for business engagement in sectors where the Skills for the Future Project can add greater value to the economy.
31. Priority sectors for the Cardiff Capital Region are updated annually in LSKIP's employment and skills plan. The Skills for the Future Project can therefore be flexible to the changing employment needs within the region and engages schools with the most up-to-date information to align learner choice most effectively with long-term regional demand.

Development Programme

32. Over the next two years it is intended to roll out the key aspects of the service across the region through building on existing best practice and develop each of the following strands in terms of outputs and outcomes from various existing providers:
 - Regional skills brokerage service
 - School engagement
 - Regional SME support
 - Graduate internship programme
 - Access to apprenticeships
 - Skills Investment Fund
33. Over the next two months we will work with partners at the ten local authorities, work-based learning providers and Higher Education Institutions (HEI) to develop a costed proposal with details of how key elements of the programme can be delivered regionally in line with the regional aspiration to deliver 10,000 additional apprenticeship and graduate positions over ten years.
34. While some local authorities are already active within areas related to the Skills for the Future Programme, a consistent model will be required which builds upon best practice and does not duplicate local authority and Welsh Government activity and de-clutters the existing activity. A key decision will need to be taken over which local authority or local authorities will host the team delivering the programme.
35. Initially, we could explore with local authorities who are already active in areas related to the Skills for the Future Programme and best suited to having their capacity augmented to extend their services across local authority boundaries. This could mean one or two authorities delivering key aspects of the model across the region at the start on a centralised basis (for example the HR support and/or school engagement).

FUNDING APPROACH

36. The funding details will be provided to members in the next report. Nevertheless, key principles will be:
- apprenticeship salary costs are met by the employer and for SMEs that have not previously taken on an apprentice there is the potential of a grant, currently funded by Welsh Government and accessed through the training provider.
 - graduate internship employment costs will be met by the employer and for SMEs that have not previously taken on a graduate there is the potential of a £1,000 grant funded through the skills investment fund.
 - graduate recruitment will be delivered in conjunction with Higher Education partners, options are currently being explored but it is hoped that a co-investment model might be achieved, similar to that in operation within other regions. It is anticipated that programme support for graduates will form a part of this arrangement.
 - a number of projects and programmes, including European funded and Welsh Government funded programmes, already exist to support the upskilling of existing staff and where possible these will be used via the skills brokerage service to meet business needs.

FUTURE GENERATION AND WELLBEING CONSIDERATIONS

37. Making young people and those who influence them aware of opportunities in the region which could offer most in terms of earning and career development potential is seen by the Bevan Foundation, Joseph Rowntree Foundation and Growth and Competitive Commission as a significant mechanism for poverty alleviation. Such school engagement will support the development a skilled and well-educated workforce equipped with more sustainable, employer-driven skill-sets. Moreover, a commitment to region-wide participation will enhance social mobility and therefore help to develop a more equal City Region.
38. Providing SMEs with support services to help overcome the burden of recruitment will not only increase the number of additional apprenticeship and graduate positions in the private sector in South East Wales but also deliver productivity gains, enhanced innovation, economic growth and greater prosperity.
39. Creating over 10,000 additional demand-led positions and providing additional training will have a positive impact on a range of sustainability considerations, including health benefits of being in employment and reduced pressure on public services due to individuals moving from being inactive or unemployed into employment.

FINANCIAL IMPLICATIONS

40. It is proposed that initially, City Deal will meet the costs of project management and to manage the Skills Investment Fund centrally. In addition, capacity will be developed across a number of local authorities

who are already involved in full or in part with the specified activities, to enable a roll out of the programme.

41. However, as outlined in the report more detail will be needed over the coming months in order to prepare and present a further report to Regional Cabinet for detailed consideration. A series of discussions are ongoing with local authorities, work-based learning providers, HEI, other key partners and stakeholders to inform the work going forward and to prepare the business case for a Skills Investment Fund.
42. In this regard, it is important that the requirements of the Wider Investment Fund Assurance Framework are followed and detailed consideration is given to how the project is developed over time. Regional Cabinet will be aware that compliance with the Assurance Framework is a key requirement of HM Treasury funding terms and conditions, as set-out by Welsh Government.
43. Section 3.7 (Business Case Development) of the Assurance Framework states:

*All Candidate Scheme Sponsors will be required to produce a business case in line with HM Treasury's Green Book using the Five Case Model – starting with an initial proposal (Strategic Outline Case) onto an Outline Business Case ("**OBC**") and finally a Full Business Case ("**FBC**").*

The Business Case at each stage of development must evidence that:

- *the scheme is supported by a compelling case for change – the strategic case;*
- *the scheme represents best public value – the economic case;*
- *the scheme is commercially viable – the commercial case;*
- *the scheme is affordable – the financial case;*
- *the scheme is achievable – the management case.*

As the business case develops from initial proposal to outline and finally full case the level of detail and the completeness of the 5 cases will develop, however, each stage of the business case must provide a compelling case for the scheme before it will be supported by the Regional Cabinet to progress to the next stage.

Due to the potential variation in size and complexity of proposed schemes the time given to scheme sponsors to develop the various stages of the business case will be provided on a scheme by scheme basis.

As indicated previously, the appraisal process will apply the principle of proportionality which may result in in the OBC and FBC stages being combined depending on the level and quality of information provided and the complexity of the scheme.

44. A well prepared and structured business case:

- enables Regional Cabinet and its key stakeholders to understand, influence and shape the project's scope and direction early on in the planning process;
 - assists Regional Cabinet to understand the key issues and available evidence base and to avoid committing resources to schemes that are either sub-optimal or should not proceed at all;
 - seeks to keep Regional Cabinet informed of progress and secure their endorsement on key project decisions at the appropriate stages and minimise the risk of elements needing to be re-worked at a later stage;
 - demonstrates to senior officers, stakeholders, customers and Regional Cabinet the continuing viability of the proposed approach.
45. For the reasons outlined above, it is suggested that at an early stage consideration is given to agreeing the overall approach and timescales that will be adopted for the business case development process. This will allow any resources identified to be broken down into the agreed business case stages and the appropriate level of resources allocated between each phase of the business case development cycle.
46. The report outlines some of the detailed work that will need to be completed in order to understand how the Skills Investment Fund will operate e.g. eligibility criteria, delivery mechanisms and how the governance arrangements will work in practice. In particular, the business case will need to clearly address issues concerning State Aid, whilst providing comfort around matters such as fund evaluation criteria, and how requests coming forward will be assessed in terms of costs, values, returns, risks, timescales, affordability and overall value for money.
47. It is understood that a formal request for development funding is not being made at this time and instead the proposal will be developed from within existing resources. These are understood to be a combination of the Programme Management Office budget and officer time in supporting the Skills Theme Group from across the ten partnering authorities.
48. Further financial advice will be provided as the proposed arrangements are developed and a report is brought back Regional Cabinet for detailed consideration and approval.

LEGAL IMPLICATIONS

49. In preparing the proposed business case (to deliver a ten year regional programme for Skills for the Future), any legal issues arising from the proposals should be considered and addressed. It is noted that a further report is intended to be submitted to Regional Cabinet in April 2018, containing more detailed proposals. Once the details of the proposals are developed it will be possible to provide more definitive legal advice
50. In the body of the report (paragraph 35) mention is made of the potential to explore augmenting the capacity of existing authorities, who are already active in areas related to skills, so as to extend their services across local

authority boundaries. Amongst other matters, legal advice should be sought to see if this aspect raises any employment law issues.

51. In considering this matter regard must be had to the provisions of the Joint Working Agreement concluded by the ten participating authorities in relation to the delivery of the Cardiff Capital Region City Deal ('the JWA'). Of particular relevance is the provision in the JWA that provides Regional Cabinet shall finalise and recommend for agreement and adoption by each constituent Council the JWA Business Plan. The JWA Business Plan, amongst other matters, shall set out the Councils' objectives and priorities for delivery of the City Deal. The JWA Business Plan has yet to be approved by the Councils. For this reason it is understood that the decision sought in recommendation 2 is subject, amongst other matters, to the approval by each of the 10 participating Councils of the JWA Business plan (referred to in the recommendations to this report as 'discharge of the JWA Business plan reserved matter').

General advice.

In considering this matter and in developing the business case regard should be had, amongst other matters, to:

- (a) the Councils' duties under the Well-being of Future Generations (Wales) Act 2015 and;
- (b) Public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: a. Age; b. Gender reassignment; c. Sex; d. Race – including ethnic or national origin, colour or nationality; e. Disability; f. Pregnancy and maternity; g. Marriage and civil partnership; h. Sexual orientation; i. Religion or belief – including lack of belief.

RECOMMENDATIONS

The Cardiff Capital Region Cabinet is recommended to agree in principle to:

- 1) Commit officer time in order to develop a full business case to deliver a 10 year regional programme for the Skills for the Future Programme.
- 2) Subject to the discharge of the JWA Business Plan 'Reserved Matter':-
 - Receiving a further report in April setting out the delivery of the programme from September 2018.
 - Subsequently receive a full Business Case for consideration and formal approval by the City Deal Regional Cabinet in accordance with:

- a. the City Deal Investment Fund Assurance Framework
- b. full consideration by the appropriate regional advisory bodies and sub-committees
- c. assessment against the Future Generations (Wales) Act.

Councillor Debbie Wilcox
Leader, Newport City Council
06 February 2018

The following Appendix is attached:

Appendix 1: CCR City Deal Programme Board Candidate Observation Record

CARDIFF CAPITAL REGION CITY DEAL PROGRAMME BOARD

CANDIDATE SCHEME OBSERVATION RECORD AGENDA ITEM:

The Cardiff Capital Region Programme Board met on:

21st December 2017

Candidate Scheme assessed at that meeting was:

Skills for the Future

Observations of the Programme Board

The Board considered this proposal at its meeting held on 21st December 2017.

Criteria for Supporting an Investment

From the evidence received the proposal has the potential to:

- Undertake school, pupil and parent engagement to provide a high-quality and impartial careers advice and guidance service to address the regional skills mismatch
- Provide impartial advice and guidance to businesses through skills brokerage
- Deliver tailored support to address barriers to participation, particularly for SMEs
- increase the number of apprenticeship and graduate internship opportunities in the region by 10,000

Business Case Development

The Board agreed that there was a need to develop a more detailed business case for consideration.

State Aid

To be considered as part of the Full Business Case

Risk

To be considered as part of the Full Business Case.

CONCLUSION

On the basis on the above information and analysis, the Board's recommendation to the Regional Cabinet is to:-

Agree in principle to support the Skills for the Future programme and the development of a full business case. Any agreement would be subject to:

- i. Discharge of the JWA Business Plan reserved matter.
- ii. Formal approval of the Full Business Case by the City Deal Regional Cabinet in accordance with:
 - a. the City Deal Investment Fund Assurance Framework
 - b. full consideration by the appropriate regional advisory bodies and sub-committees
 - c. assessment against the Future Generations Act Framework.