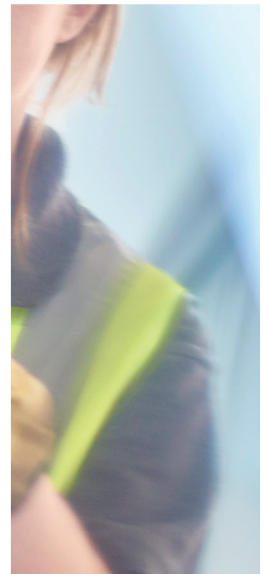
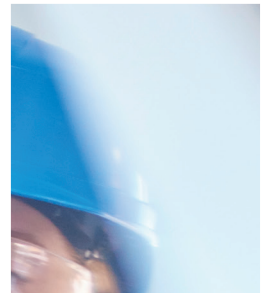
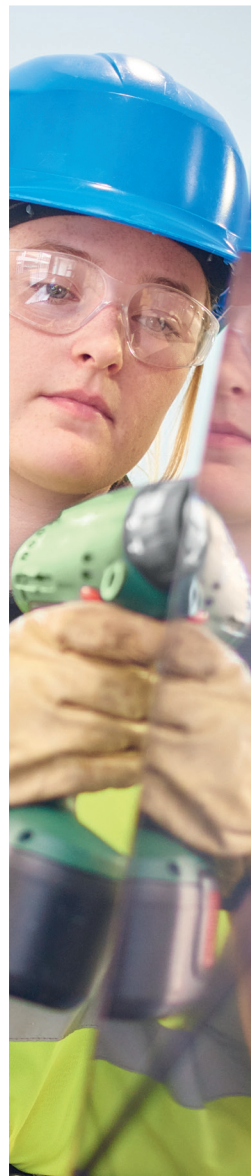




ENTERPRISE AND SKILLS REVIEW: REPORT ON PHASE 2 SKILLS ALIGNMENT



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1. Introduction

In the first phase of the Enterprise and Skills Review the Scottish Government concluded that the two existing skills bodies, Scottish Funding Council (SFC) and Skills Development Scotland (SDS), would continue to share leadership for the planning and commissioning of skills interventions. This means that both bodies will have collective responsibility and accountability to the Scottish Government for skills delivery. Going forward, therefore, we will draw on the relative strengths and expertise of the two lead agencies and will align their relevant functions to ensure the needs of learners and employers, as well as the capacity of providers, are taken fully into account to improve outcome delivery.

2. Purpose, vision and benefits

Purpose

The purpose of the project is to *align the relevant functions of SFC and SDS to ensure that Scotland's people and businesses are equipped with the right skills to succeed in the economy, not just now but in the future.*

To achieve this, Scottish Government working closely with SDS and SFC have identified the following core principles:

- The need for a **single set of strategic skills guidance** to deliver skills planning: to be issued to both SDS and SFC boards alongside the agencies' letters of guidance, which will support the delivery of the Strategic Board's Strategic Plan.
- The need for a **jointly agreed evidence base**, drawing on the work of the Analytical Unit, as well as other agencies' and stakeholders' input, through which to establish demand, to inform decisions about learning and skills provision and to underpin agreed indicators of success.
- The need for a clear and agreed process through which the two agencies can **jointly prioritise skills investment**: this should draw on the evidence base described above, the operational capacity of providers, and the priorities expressed by Scottish Ministers. The process should recognise the contribution from other partners such as local government and regional economic partnerships.
- A **governance mechanism**, through which SDS and SFC can discuss and endorse these agreements and which supports the Strategic Board's aims and expectations through the joint planning and joint delivery focus of the organisations.
- The need for a common **monitoring and evaluation framework**, informed by the Analytical Unit, the Strategic Board's single Strategic Plan and Scottish Government's development of its National Performance Framework.

Vision

Our vision is for the skills services to be fully aligned to deliver the learning and skills necessary for sustainable and inclusive economic growth.

Benefits

- Learners will be able to access provision which enables them to develop the skills required to contribute to a highly productive workforce.
- Employers will experience reductions in skills gaps and improvements in the skills of their workforce.

- Through collaboration, the capacity of colleges, universities and training providers will be developed and deployed to maximum effect.
- Duplication in public funding will be addressed, leading to more efficient investment in human capital through our education and skills system, and the upskilling and reskilling of existing workers.

3. Delivering Better Outcomes

As a result of the project, SDS, SFC and Scottish Government will take forward an implementation programme to align the relevant elements of planning, commissioning and evaluation. This will be supported by enhanced strategic oversight, guidance and reporting arrangements which align the responsibilities of the Strategic Board, the repurposed Skills Committee¹ of the SFC and the boards of the two agencies.

The role of the Strategic Board will be critical in setting direction on how the work of the two agencies', alongside that of the Enterprise Agencies, contributes meaningfully to wider efforts to deliver a step change in productivity.

The existing Skills Committee of the SFC will be repurposed as the Skills Committee of the Strategic Board to take on a new role which will provide an intermediate level of oversight at a greater level of detail between the SFC and SDS, their respective Boards and the Strategic Board. The remit and membership of the Skills Committee will be reviewed to allow it to take on this new role and accordingly draw on the right levels of expertise. The newly repurposed Skills Committee will take full authority from the Strategic Board.

Integrated Skills Planning

We will establish a new core joint executive team, led by a single director reporting directly to the CEO's of both agencies and working with a virtual team in both organisations. The functions of this team will be to align skills planning across both agencies.

Focussing support on the user – developing the user-centric model

The project has focussed on ensuring the needs of learners, employers and the economy as a whole are central to aligned skills planning and commissioning across the agencies.

Enhanced use of learner, agencies and employer insight, more direct employer engagement in the work of both agencies, an improved understanding of the capacity and potential of all providers and a shared focus on contributing to a more productive economy will be key features across the joint planning, decision making and commissioning processes being developed.

Joining the partners up to deliver

Both agencies will align activity to deliver a joint 5 step skills planning and provision model. The steps in the process will be:

Step 1: Agreed Skills Demand Assessment – to ensure data and industry-led and employee-led insights are robustly considered as an integral and balanced element of Scotland's skills planning and provision process for FE, HE and work-based learning.

¹ To note that this remains subject to legal consideration given the statutory strictures.

Step 2: Joint Provision Planning – ensure data and information on provision is robustly considered as an integral and balanced element of Scotland’s skills planning and provision process for FE, HE and work-based learning. This will include confirming a single process to analyse and report on capacity across all providers; joint planning to align ‘open market’ and ‘institutional’ approaches, eradicating overlap and duplication; responding to findings from the Learner Journey workstream to build capacity and capability in the supply chain; skills provision plan informed by Return on Investment (ROI) measures; capacity of CIAG to inform learner choice and connect that choice to employer demand.

Step 3: Integrated Processes For Progressing Institutional Outcome Agreements & Commissioning With Training Providers – The proposed process for investment in skills will take account of the outputs from Step 1 & 2, alongside other SG/Strategic Board priorities. Step 3 will incorporate an assurance role for the new integrated team so that duplication, overlap and gaps are formally considered across the planned skills investment by SFC and SDS. The day to day agreement of Outcome Agreements (SFC) and the commissioning of training providers (SDS) will continue to be managed internally within each agency, **supported by the co-ordinated intelligence of the central team.**

Step 4: Co-Ordinated Outcome Agreement Execution & Training Provider Contract Management – To ensure robust monitoring, performance management, contract management and effective implementation of agreed FE, HE and work-based learning commissions. This will include:

- Day to day performance management of OAs and training commissions to be undertaken by each agency.
- Co-ordinate performance monitoring of providers & learner experiences.
- Develop common data platforms for compliance and performance reporting & digital access points & platforms.

This is necessarily separate and distinct from Step 3, as it will focus on both monitoring and active performance management. The new integrated team will provide the unified approach to monitoring. However the day to day active performance management will be managed internally within each agency.

Step 5: Joint Review & Evaluation – The joint executive team will have responsibility for co-ordinating and undertaking a joint programme of evaluation in line with the requirements of the new strategic board. This will ensure that the joint skills provision plan adequately balances the needs & priorities of ‘inclusive growth’, the economy, industry sectors, employers, regional economies; as well as learners, institutions and private providers; and to hard align performance & evaluation systems with common performance measures that support the Strategic Plan’s KPIs & ‘inclusive growth’ framework and realisation of return on investment throughout the system. This will be consistent with and fit within the ambit of the SG’s new National Performance Framework and the associated analytical unit.

4. Implementation: Actions for Change

The two agencies currently fulfil a number of relevant and related roles and responsibilities which will be more strongly aligned during implementation.

Skills Development Scotland develops and reports on a range of sectoral and regional labour market intelligence, holds real-time data on the learning and employment status of 16 to 24 year olds and directly contracts for Modern Apprenticeships and a number of other skills programmes.

Scottish Funding Council funds colleges and universities based on Outcome Agreements informed in part by data supplied by SDS and taking account of Scottish Government priorities in access, innovation, research and education, as well as skills needs. The Council also has strong institutional relationships with and an in-depth understanding of the operations of college regions and universities.

We have identified room for considerable further improvement, by way of more extensive joint executive working across four areas in which sit eight objectives:

Oversight and Guidance

- **A single set of strategic skills guidance from Government. From 2018/19 onwards** Scottish Government will issue a single set of strategic skills guidance to the boards of SDS and SFC which is common to both organisations. This will support the delivery of the Strategic Board's Strategic Plan.
- **Reformed governance roles established during 2017/18.** The boards of both agencies will remain in place and will retain responsibility for decision making in line with Strategic Guidance. In addition, the existing Skills Committee of the Scottish Funding Council will be repurposed as the Skills Committee to both inform the delivery of guidance and to provide a joint decision making forum for the two agencies' boards on issues which affect both organisations. The Skills Committee will act as the skills Hub of the new Strategic Board, when it is established, providing a more focused level of oversight and will provide strategic oversight of implementation to the interim Enterprise and Skills Implementation Board. Its membership will be reviewed to allow it to perform these functions effectively; it will draw part of its membership from the boards of SDS and SFC.
- **Establish more intensive executive joint working practices during 2017/18.** A **Director of Skills Alignment** will be appointed to lead on operational alignment to enable an integrated approach to skills provision. The post will be jointly appointed and equally funded by both agencies and will be at an appropriately senior level required to influence the strategic and operational decisions of both bodies. The post holder will report to the Chief Executives of both bodies to secure his/her authorising environment.

The Director of Skills Alignment will be supported by **a small permanent core team** drawn from both organisations, providing administrative and related support, as well as secretariat support to the repurposed Skills Committee, while **a wider virtual team** will be assembled from staff in both organisations, drawing on the expertise required to fulfil the requirements of those elements of the 5 step skills planning and provision model led by the Director of Skills Alignment. The 5 step approach will require a more collaborative, distributed leadership approach. Together the core and virtual teams will constitute a joint executive team with responsibility for the five step approach.

Responsibility for steps 3 and 4 of the model will largely remain within the executives of two organisations in line with the responsibilities and accountabilities of their Chief Executives and boards. Nonetheless the joint executive team will have responsibility for bringing together and sharing intelligence on provider capacity and future risks and opportunities. Therefore commissioning (step 3) and performance management (step 4) will both inform and be informed by that provider capacity intelligence. Review and evaluation will be informed and supported by the collective data 'hub'.

The Chief Executives of both organisations will be responsible for ensuring that resources are available to staff in both the core and virtual teams. It will be for the Director of Skills Alignment and chief executive of each organisation to agree how best to draw the contribution of staff to the virtual team alongside their wider responsibilities.

Demand Assessment & Provision Planning

- **Establish a single demand and provision planning cycle by 2018/19** Under the leadership of the Director of Skills Alignment the two organisations will move to a single planning cycle by 2018/19. This single cycle will take account of the planning cycle of colleges, universities and training providers.
- **Establish a single end to end planning process by 2020/21** A single end to end process for the planning of all skills provision across both organisations will be established. This will be developed in a way which ensures it is responsive to national and regional ambitions for inclusive growth incorporating prioritisation of economic and social needs.

Commissioning, Outcome Agreements and Contract Management

- **Enhance the use of information on labour market demand and providers' capacity across both organisations starting in 2018/19.** The use of information on both industry demand and current and potential provider capacity to deliver needs to better and more clearly inform Outcomes Agreements and SDS contracting processes. This will be enhanced through a programme of on-going improvement from 2018/19. Key elements of this programme of improvement will be:
 - refinement of the labour market intelligence which underpins Regional Skills Assessments and Skills Investment Plans;
 - the development of provider capacity assessments; and
 - significantly enhanced transparency on how demand and supplier data is used to inform decision making.
- **Co-ordinate and align staff to seamlessly develop, support and manage skills provision planning, Outcome Agreements and SDS contracting from 2018/19.** The key expectations of the Director of Skills Alignment, both Chief Executives and the boards of both organisations is that provision of skills delivers on the intended strategic intent, and does not result in confusion or competing offers for learners, employees or employers, nor in duplication of funding. As a key element of the creation of a core and virtual team approach under a single person, the work of the relevant parts of both organisations will be aligned to ensure a seamless approach to developing and implementing skills provision planning, Outcome Agreements and SDS contracting. Going forward the effectiveness of the arrangements will be reviewed on an on-going basis.

Review and Evaluation

Establish Common Monitoring Criteria and align these with core KPIs by 2019/20. SFC and SDS together with Scottish Government will establish common monitoring criteria, which are outcome-focused, and are significantly informed by both the outputs from Learner Journey Programme, the Developing the Young Workforce Programme and the performance metrics required by the new Strategic Board. These common monitoring criteria will be hard aligned with the core KPIs that inform the single strategic plan which will be directed by the Skills Committee on behalf of the new Strategic Board.

Next Steps

Both agencies are engaged with the Government to develop a detailed implementation plan to carry through the reforms identified within the project. Work that has been agreed to take place in the short term includes provision of:

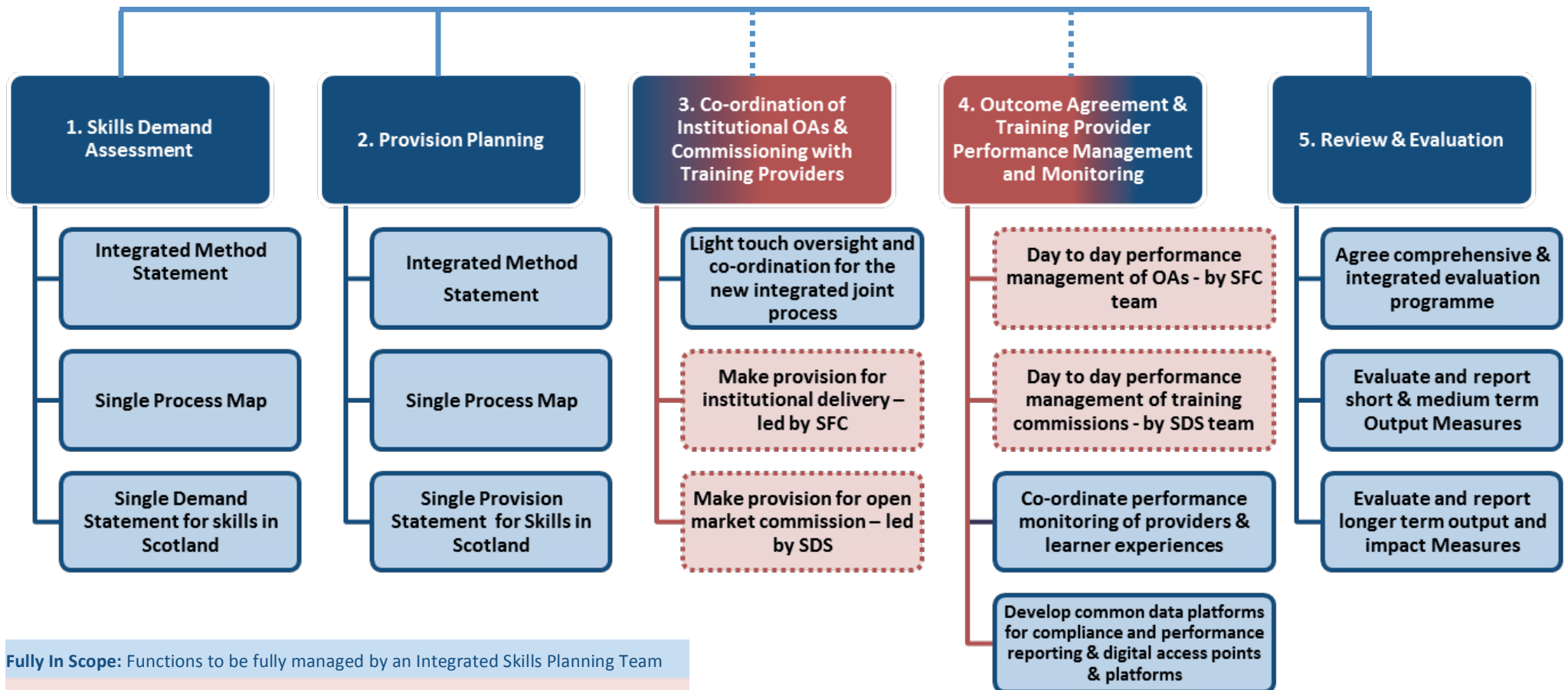
1. A **Term of Reference** (ToR) for the repurposed Skills Committee is critical to ensure effective working operations.
2. A **Memorandum of Understanding** (MoU) will be drafted to explore effective mechanics to deliver optimal skills planning alignment through utilisation of the 5 step model. This MoU will reference both the ToR for the repurposed Skills Committee and the operating model diagram shown above.
3. **Skills Function Deliverables:** Additional work take place to confirm the deliverables of each of the 5 stage model to ensure robust thinking and coherent processes are developed during an implementation phase.

The milestones included for each of the identified objectives will be underpinned by more detailed timelines as part of the wider programme of Enterprise & Skills Review implementation. The Skills Committee will provide strategic oversight of implementation to the interim Enterprise and Skills Implementation Board and will report to the Strategic Board (and the boards of SDS and SFC) on progress. We will continuously review the arrangements outlined in this paper during implementation and thereafter.

The following diagram illustrates how the new joint executive team and existing executives of the two organisations will contribute to the 5 step skills planning and provision model.



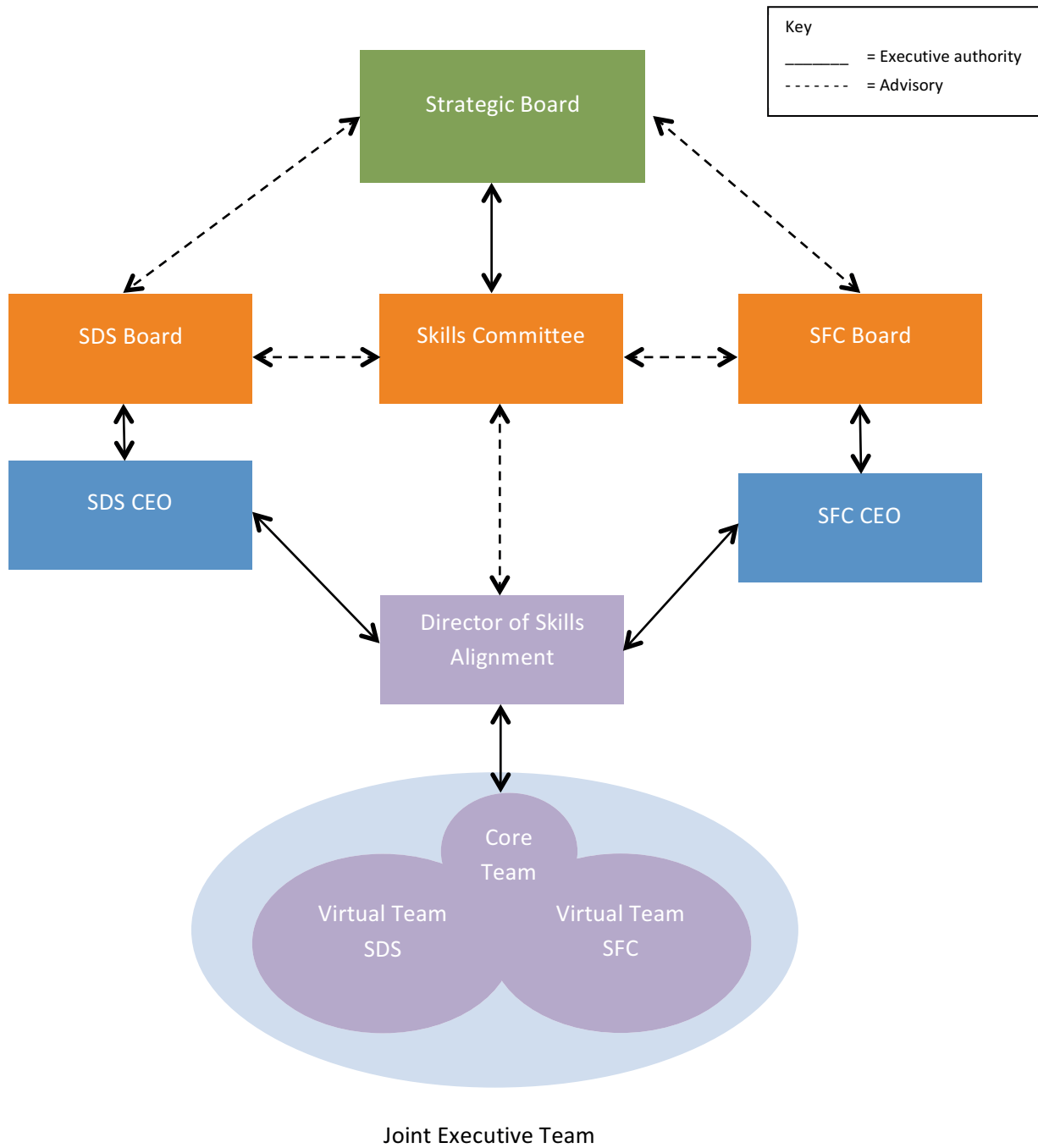
Director of Skills Alignment



Fully In Scope: Functions to be fully managed by an Integrated Skills Planning Team

Devolved: Management of functions to remain with individual agencies

The diagram below illustrates the new Governance and oversight arrangements in relation to skills alignment.





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