



House of Commons
Scottish Affairs Committee

**Employment and Skills
for the Defence
Industry in Scotland:
Responses by the
Government and
Scottish Executive to
the Committee's Sixth
Report of Session
2007–08**

**Fourth Special Report of Session
2007–08**

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The Scottish Affairs Committee

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the offices of the Advocate General for Scotland but excluding individual cases and advice given within government by the Advocate General).

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/scotaffcom.

Committee staff

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Fourth Special Report

The Scottish Affairs Committee published its Sixth Report of Session 2007–08 on 23 June 2008. We have received memoranda from both the Scotland Office and the Scottish Executive containing responses to the Report. The memoranda are published without comment as appendices to this Report.

Appendix 1

Memoranda submitted by the Scotland Office

Introduction

1. The UK Government welcomes the Sixth Report of the Scottish Affairs Select Committee Session 2007–08 on ‘Employment and Skills for the Defence Industry in Scotland’ and the Committee’s recognition of the many benefits of UK Government investment in the defence industry in Scotland. The Committee’s inquiry provides an important body of evidence demonstrating the value of that investment to Scotland. We are proud of our role in helping to develop Scotland’s strong skills and manufacturing base.
2. The Committee has raised a number of issues which it believes need to be addressed.

Response to Conclusions and Recommendations

1. **We are concerned that over 10 months elapsed between the confirmation of the carrier programme and a contract being signed. In January 2008 the Chief Operating Officer of Defence Equipment and Support said that they were "very close to being ready" to sign a contract and yet, five months later, the contract had still not been signed. (Paragraph 28)**
3. The manufacture contracts for the Future Aircraft Carrier (CVF) were signed on 3 July 2008, with the newly-formed maritime company BVT Surface Fleet and other companies in the Aircraft Carrier Alliance. Due to the complexities of the project, there were detailed contractual negotiations. These had to conclude before the contract could be signed.
4. We also needed to ensure that the best alignment of annual expenditure, work timetable and commercial arrangements had been achieved, and that Industry had the confidence to move ahead with the creation of the BVT Surface Fleet joint venture.
2. **Although the Government has repeatedly said there will be no delay to the construction phase of the project, continued delays to the contract signing have caused concern. We have been told that the CVF programme is vital to maintaining employment in Scotland and the skills necessary for naval ship building. We are concerned that a delay in the construction of CVF and a gap in workload could lead to job losses and damage the ship-building skills base the UK needs to support if it wishes to retain sovereign capability in key areas. (Paragraph 29)**
5. The UK Government welcomes the Committee’s finding that “the defence industry, particularly the ship building industry, is in a more stable position than it has been for some time, largely due to the CVF programme.” We would like to reassure the Committee that there has been no slippage against the high level milestones for the CVF project: when construction starts at the yards, when the blocks move to Rosyth

for assembly and when the ships are accepted off contract. The contractors of the Aircraft Carrier Alliance signed a legally binding agreement with the MOD on 3 July 2008 to deliver a carrier in 2014 and another in 2016. This allows them to achieve their 'In Service' dates.

6. Up until this point, we had focused on minimising risk to the project, ensuring that we had a full awareness of the costs and timescales involved and a complete understanding of the project. This enabled us to take the Manufacture decision with total confidence. We also ensured that work towards production continued (under the Demonstration phase contracts) whilst work was proceeding on the Manufacture contract.
7. A sustainable industrial base is necessary to maintain appropriate operational sovereignty in the UK. The Defence Industrial Strategy (DIS) sets out industrial policies which aim to promote such a base. It also sets out the importance of sustaining skills in the UK Maritime Sector. Scotland has many of the skills categories required to underpin these strategic capabilities.
8. The Aircraft Carrier Alliance anticipates around 1200 workers will be employed on CVF work at BVT Surface Fleet and the current workforce for Babcock Marine (Rosyth) will rise to around 1600 with the majority engaged on CVF. The CVF project is also continuing to drive apprentice and graduate recruitment and training in Scottish yards and we are confident that Industry will meet the need for some 2,800 workers in Scottish shipyards at the peak of manufacture.
9. There remain considerable additional opportunities for 2nd and 3rd tier suppliers in Scotland to compete for engineering and construction work, including some relating to the carriers' upper blocks and superstructure. Scottish industry has already secured a number of significant contracts for the supply of equipment.

3. Delays during the construction phase and beyond could cause problems, both operationally and to manufacturers. The MoD must be vigilant to the possibility of delays and take robust action to avoid or limit any further delay in the project. We recommend that the Ministry of Defence review how it communicates the progress of defence programmes to limit confusion and concern about possible delays. Uncertainty about progress has led to scare-mongering, which has been destabilising to the workforce and the wider community. (Paragraph 30)

10. The MOD communicates progress on equipment programmes both to the workforce and the wider public in an effective and efficient manner. There are various methods by which the MOD ensures that key information on defence equipment programmes is made available to the UK Parliament, the public and stakeholders.
11. The MOD's annual report to Parliament on progress in equipment procurement (Major Projects Report) is informed by regular internal and external scrutiny into its equipment programmes. The Report provides a record of performance across the 20 largest post-Main Gate projects and the 10 largest pre-Main Gate projects, measured by value and based on forecast future procurement expenditure. Furthermore, the House of Commons Defence Committee regularly takes evidence from MOD Ministers and officials and undertakes inquiries into specific equipment

programmes. The National Defence Industries Council also provides a forum for communications with senior industry representatives.

4. Given the importance of shipbuilding to the Scottish economy, delays to the CVF programme could impact disproportionately on Scotland compared to the rest of the UK. The Scotland Office, therefore, needs to make the case to other Government departments to ensure the potential consequences of any delay are clear, particularly to the MoD. (Paragraph 31)

12. We welcome the Committee's recognition of the importance of the shipbuilding industry to the Scottish economy and note that 90% of orders for the shipbuilding industry in Scotland are from the UK Government, which will be investing some £14bn in the UK shipbuilding industry over the next 10–15 years.

13. The Scotland Office is in close and regular communication with Whitehall on a range of matters, helping to ensure that Scotland's interests are considered at the highest level. The MOD is fully aware of the importance of the CVF programme and, as set out above in paragraph 6, has taken pro-active steps to minimise the risk of delays.

5. We welcome the confirmation that work on the Joint Sea Based Logistics (JSBL) ships and some of the work on the Solid Support (SS) ships will go to British yards. We believe Solid Support ships should also be built in British yards since ensuring a steady forward load is vital if Scottish, and indeed UK, shipbuilders are to be able to plan their workforce and the skills-mix of their workforce effectively. The only circumstances in which we can envisage accepting that the JSBL or SS ships should be put abroad would be if there were capacity constraints, but we believe that this should be avoidable with prudent planning. (Paragraph 40)

14. We have not taken any decisions on the procurement strategy of the Joint Sea Based Logistics (JSBL) and Fleet Solid Support (FSS) elements of the Military Afloat Reach and Sustainability (MARS) programme. We are currently discussing the details of how much of the JSBL and FSS work will be undertaken in the UK by BVT Surface Fleet as part of a long term programme of work under a new business agreement with the MOD.

6. We are concerned that there appears to be a significant amount of confusion over the status of the MARS tankers. The decision to classify the tankers as commercial vessels had previously been explained with an emphasis on capacity issues. This led to a widespread belief that the tankers could be pulled back to the UK if the CVF programme was delayed. This now appears not to be the case. (Paragraph 41)

7. Uncertainty about the timing of the CVF has increased concern about the first MARS vessels being built outside the UK. We recommend the Ministry of Defence clarify what, if any, strategy there is to cope with delays in the current ship building programme and ensure critical skills are maintained. (Paragraph 42)

15. The contracts for the work on the CVF programme were signed on 3 July 2008. Together with the formation of BVT on 1 July 2008, this provides the impetus for the real change needed to ensure we have a vibrant, competitive and sustainable UK

maritime sector which will be fundamental to sustaining our key warship building capability in the future.

16. Difficulties in demonstrating that the Future Tankers (FTs) meet all the relevant criteria to be declared as military vessels meant that the MOD has not declared an EC Treaty Article 296 exemption. Article 296 allows EU Member States to exempt defence contracts from EU procurement rules if this is necessary for the protection of their essential security interests. Of course, the applicability of Article 296 to the FSS and JSBL elements of the MARS programme will be considered in due course.
17. The classification of a vessel does not determine how it is procured—in this instance, the FTs are being procured in accordance with the EU Public Contracts Regulations 2006 and the requirement was advertised in the Official Journal of the European Union. After careful evaluation, it was announced on 21 May 2008 that four bidders have been selected to go forward to the next stage of the planned procurement of the FTs. The bidders are Fincantieri (Italy), Hyundai (Republic of Korea), Navantia (Spain) and a consortium of BAE Systems (UK) with BMT DSL (UK) and DSME (Republic of Korea). None of the bidders have proposed building the FTs in the UK.
18. Given that there will be a lack of UK capacity during the timescales when the MARS FTs are needed—and that key industrial maritime capabilities will be sustained well into the next decade by the CVF and the Type 45 programmes—an open competition will secure value for money. Opportunities will exist, however, for UK companies to play an important part in the extended supply chain for the FTs.

8. We recognise the important role aerospace and non-naval defence companies play in providing economic development and high skilled jobs in Scotland, and the role of MoD as a major employer in Scotland. We support necessary MoD reorganisation but the MoD must ensure there is clear communication and consultation with staff and other stakeholders both before and during any changes. (Paragraph 45)

19. The MOD recognises its role as a major employer in Scotland and the UK Government welcomes the Committee's support for necessary MOD reorganisation. The MOD's procedures ensure that MOD staff are fully consulted and informed on internal reorganisation requirements.
20. It is the MOD's policy that any internal change that affects more than 30 staff requires Trade Union consultation. This ensures that staff affected by internal change are clearly informed in a timely and appropriate manner and given the opportunity to comment on them before they are implemented. For example, Defence Equipment and Support (DE&S) has consulted regularly with the Trades Unions on a national and local basis during development of its PACE (Performance, Agility, Confidence and Efficiency business change programme).
21. Externally, we endeavour to provide stakeholders with as much information as possible about proposed changes. For example, the announcement of the MOD's Head Office Streamlining was communicated widely across Government, to the Houses of Parliament and to the media. The Consultation Document was also published on the internet.

9. We believe the Modern Apprenticeship programme is a valuable alternative to higher education and provides young people with a chance to develop practical skills. We are persuaded that, although the funding structure in Scotland differs from that of England and Wales, 16–19 year old apprentices in Scotland do not attract significantly less funding than apprentices in England and Wales. (Paragraph 59)

22. Training is a devolved matter, falling within the responsibility of the Scottish Executive. The UK Government is concerned that the Scottish Executive has allowed Modern Apprenticeship funding to fall behind that available in England, which will increase to £1 billion by 2010–11. The UK Government shares the Committee's view that the Scottish Executive should not neglect its responsibility towards Scottish apprentices.

23. We are pleased to note that the CVF programme has resulted in increased apprentice and graduate recruitment and training in Scottish shipyards. BAES Surface Fleet Solutions (now BVT Surface Fleet) recruited 120 apprentices on the Clyde and Babcock Marine recruited 56 apprentices at Rosyth in 2007. Both companies have announced that they will recruit a further 70 and 56 apprentices respectively this year. We would urge the Scottish Executive to provide the financial support needed so that Scottish apprentices can meet the sector's requirements and expectations and maximise the opportunities afforded by the UK Government's continued investment in the shipbuilding industry in Scotland.

10. We welcome the work that BAE and SEMTA are doing to develop apprenticeships for adults. However, we are concerned that apprentices aged 20 or older do not receive full funding. We believe that it is vital for Scottish industry to look at upskilling throughout the workforce, including mature workers who were not able to access apprenticeships as school leavers. We urge the Scottish Executive and Scottish Enterprise to consider increasing funding for adult apprentices. (Paragraph 60)

24. As noted above at paragraph 22, training is devolved to the Scottish Parliament. We support the Committee's conclusion and would urge the Scottish Executive not to overlook mature Scottish apprentices and instead provide a firm commitment to meet their needs. The UK Government is responsible for training in England and has committed to increase spending for adult skills and apprenticeships to £4.3 billion a year by 2011, helping to deliver an increase in spending of 17% on adult learning. Scotland requires a solid skills base for the growth of its manufacturing industry and this is compromised by the Scottish Executive's policy towards Scottish apprentices aged 20 and over.

11. The Scottish Executive must ensure that industry continues to see Scotland as a good area for investment due to the highly skilled workforce. Scottish Enterprise also has a role to play in promoting Scotland to industry and working to develop existing Scottish industry. We are concerned that Scottish Enterprise has not been sufficiently pro-active to date and hope that the re-launch of Scottish Enterprise on 1 April 2008 will lead to greater success in promoting and supporting Scottish industry. (Paragraph 69)

25. We support the view that the Scottish Executive and Scottish Enterprise must be proactive in helping maintain a highly skilled and innovative workforce so that Scotland keeps in line with the rest of the UK and remains an attractive place to invest.

12. We urge all stakeholders, including the Ministry of Defence, Skills Development Scotland, the Scottish Enterprise and defence companies to work together to promote careers in the defence sector and support the work of education providers in widening access to skilled employment or further training. We urge the Scottish executive and local authorities to examine the apparent biases within the education system in favour of the academic stream and urge them to take appropriate action to boost the standing of vocational options. (Paragraph 70)

26. The UK Government is committed to the sustainability of the defence industry in the UK and Scotland and has contributed to the industry by providing numerous training opportunities and significant investment.
27. The MOD's investment and programmes have benefited both Scottish Universities and Scottish companies. The MOD announced a 'Competition of Ideas' to inspire the best innovators from across Britain to bid for a contract to develop their ideas and help meet key defence challenges. This resulted in three companies operating in Scotland and three major Scottish Universities (Glasgow, Edinburgh and Herriot Watt) receiving contracts.
28. EMRS, based in Edinburgh, received £5.9M of MOD funding last year. EMRS places contracts throughout the UK and last year this included contracts with Scottish organisations totalling over £1M. C4ISTAR also ran two programmes at Herriot Watt University in Edinburgh.
29. The MOD recognises that a long term suitably skilled workforce is central to the delivery of the DIS. This requires a co-ordinated approach to strategic workforce and skills planning between the MOD and Industry. The MOD is working jointly with Defence industry employers and the Skills for Business network to: identify the future strategic workforce capability that we need; improve the future supply of common defence sector skills through recruitment, training and development action; and provide a common demand signal for recruitment, training and education provision. By being clearer about the strategic skills required to underpin the DIS, we will help skills providers to identify strategic investments, such as new learning facilities.
30. Under the auspices of the National Defence Industries Council (NDIC), a joint MOD and Defence industry strategy is also being developed to mitigate the skills shortage risk.

13. Many defence companies currently operating in Scotland have invested significantly in their facilities there. That makes relocation south of the border unlikely in the short to medium term. We recognise that the possibility of constitutional change will throw into doubt the long term sustainability of the Scottish defence industry as, under the current business model, MoD orders are the foundation of any additional business. (Paragraph 76)

31. The UK Government strongly endorses the Committee's concerns and the importance of MOD orders to the defence industry in Scotland.
32. The Committee is right to say that "the issue of constitutional change affects the future sustainability of the Scottish defence industry". The MOD's planning and strategy is based on current constitutional arrangements and does not account for a Scotland separated from the rest of the UK. There is a strong manufacturing and skills base in Scotland as a result of sustained investment by the UK Government. 5,000 full time equivalent jobs in 2005–2006 are estimated to be generated as result of direct expenditure on equipment by the MOD. In 2005–06, an estimated £550 million was spent on equipment with companies based in Scotland and with whom MOD directly contracts.
33. The MOD's activity also helps to sustain a company's critical mass even if it is also engaged in the supply of goods and services to other clients. Many companies based in Scotland, engaged primarily in the supply of equipment to the MOD, have also developed products and expertise that enables them to access global markets for products with defence and civilian applications.

14. With a limited amount of guaranteed work after the CVF programme it is possible that the majority, or the entirety, of the work for the Joint Venture could be carried out in the VT yard in the south of England rather than Scotland. We urge the Ministry of Defence, BAES and VT to ensure that any decisions are communicated clearly and early to the workforce and consulted on. The Scottish Executive and Skills Development Scotland must ensure that education and training in Scotland continue to produce a highly skilled, highly motivated workforce. The Scotland Office must promote the strengths of Scottish industry and make the case within Government for a continued industrial presence in Scotland. (Paragraph 81)

34. Paragraphs 10 and 11 above describe MOD's procedures for communicating progress on defence equipment programmes both to the workforce and the wider public. Furthermore, the DIS update process will continue to provide Industry with ongoing clarity to facilitate restructuring, rationalisation and investment in the capabilities and skills needed to ensure the long term health of the UK's defence industrial base. Industry also recognises the importance of consulting its own workforce and stakeholders.
35. We have already established that a sustainable industrial base is necessary to maintain appropriate operational sovereignty in the UK and that Scotland plays an important part. Scotland has many of the skills required and we urge the Scottish Executive to be proactive in maintaining this highly skilled workforce. The defence industry in Scotland is in an attractive position if it builds on these skills, is competitive, and provides value for money.
36. We see no danger to the future of the Clyde shipyards but plans rest with Industry. A large workload is underway: the Clyde shipyards are building the Royal Navy's Type 45s and will be building sections of the future aircraft carriers, providing thousands of jobs for Scotland and the UK. This will ensure that the industry remains sustainable and healthy well into the next decade.

37. The significant and sustained investment provided by the UK government will assist the Scottish defence industry to become more efficient and competitive. We expect them to use this strong foundation as a spring board to win further commercial work outside of defence contracts, including export contracts. Through the support of UK Trade & Invest, the UK Government plays a crucial role in assisting all UK defence sector companies to secure export contracts. The position of the UK Government on the world stage also places the defence industry in Scotland in a strong position for securing future contracts. The Scotland Office will continue to promote and communicate Scottish interests at the highest level.

15. While the Joint Venture is guaranteed a certain amount of work, defence companies need to increase their non-MoD order book. We urge the MoD to work with companies during the design stage of defence programmes to ensure that, if possible, designs can be adapted for the export market. (Paragraph 86)

38. The impact of defence spending to Scottish industry is far reaching, creating and sustaining large numbers of highly skilled jobs whilst also enabling many companies concerned to develop additional applications for export and civilian markets. The UK Government is committed to working closely with the UK defence sector in support of its export campaigns. The DIS recognised that Industry's priority is to produce systems that meet the MOD's requirements and that this may not always factor in export potential at the design stage. However, the development of through life capability management heralded by the DIS offers the opportunity to consider features to enhance exportability at the design stage.

16. The defence industry is vital for Scotland. As well as contributing to the economy the defence industry also provides skilled employment opportunities. The defence industry, particularly the ship building industry, is in a more stable position than it has been for some time, largely due to the CVF programme. Scottish engineering and manufacturing is supported by a highly skilled workforce. However, once the carriers have been constructed, there are a number of challenges that the industry will have to prepare for. (Paragraph 87)

39. The UK Government welcomes the report and endorses the Committee's view that "the defence industry is vital to Scotland. Defence and aerospace industries generate nearly £2.31 billion in sales and together with the MOD support almost 50,000 jobs and a record number of apprentices". Scotland is benefiting from a sustained period of MOD investment.
40. We also welcome the Committee's recognition of the benefits of the DIS to industry and the MOD. The DIS is driven by the need to ensure that the capability requirements of the Armed Forces can be met, now and in the future at good value to the taxpayer. This is in recognition that a change of approach was needed in order to sustain the industrial capabilities that are vital to maintain our national security. DIS gives a clearer view of the MOD's priorities and allows Industry to make informed decisions on the skills and capabilities they require to meet those priorities.
41. Post CVF, the challenge that the MOD and Industry face in the maritime sector is to develop an enduring industry that delivers affordable, sustainable and efficient

maritime build, equipment and through life support to meet the operational needs of the Royal Navy today and in the future. The Maritime Industrial Strategy is designed to assist the maritime defence industry in the UK, including Scotland, to address these challenges and indeed to be more competitive when tendering for new work and pursuing export drives.

17. Those challenges include the potential impact of possible constitutional change with consequential loss of automatic access to the UK home market, limited success to date in the export market and the formation of a Joint Venture which could lead to more work being carried out in England. To prepare for these challenges, all stakeholders including the Ministry of Defence, the Scottish Executive, Scottish Enterprise, Skills Development Scotland, the Scotland Office and industry, need to work effectively together to ensure that Scotland's engineering and manufacturing base continues to be world class. (Paragraph 88)

42. The UK Government is wholly committed to a sustainable UK defence industrial base as set out in its DIS.
43. In contrast to many other countries, such as Norway and Finland, Scotland's shipbuilding industry is primarily a warship building industry with the specific skills and manufacturing base needed for such an industry. The Committee will be aware that 90% of orders for the shipbuilding industry in Scotland are from the UK Government, which will be investing some £14bn in the UK shipbuilding industry over the next 10–15 years. However, our planning and strategy is based on current constitutional arrangements and does not account for a Scotland separated from the rest of the UK in any way. Constitutional change would also have a wider negative impact on employment in Scotland as 18,500 civilian and military personnel are directly employed by the MOD and a further estimated 12,500 additional people are in jobs generated by the presence of MOD bases, personnel and infrastructure.
44. Scotland's culture of innovation and its strong engineering and manufacturing base means that it is well placed to succeed in competitive global markets. The UK Trade & Investment Defence and Security organisation continues to maintain strong links to MOD and offers all UK-based companies access to military and civilian professionals as well as links to a worldwide network of defence attaches and embassy commercial staff. This is an extremely valuable resource to the UK defence industry and one that has helped the UK become the world's leader in defence exports in 2007, with a record £10 billion of new business and a 33% of market share. We are confident that the UK defence industry will continue to build on this success. As established in paragraph 37, the position of the UK Government on the international stage places the defence industry in Scotland in a strong position for securing future contracts, particularly in comparison with smaller countries.

Appendix 2

Memoranda submitted by the Scottish Executive

1. We welcome the work that BAE and SEMTA are doing to develop apprenticeships for adults. However, we are concerned that apprentices aged 20 or older do not receive full funding. We believe that it is vital for Scottish industry to look at upskilling throughout the workforce, including mature workers who were not able to access apprenticeships as school leavers. We urge the Scottish Executive and Scottish Enterprise to consider increasing funding for adult apprentices. (Paragraph 60)

The Scottish Government is determined that skills will play a full role in increasing sustainable economic growth for Scotland. As part of this we will ensure that our National Training Programmes, including modern apprenticeships, continue to meet the needs of Scotland's individuals and employers. In March this year we announced a package of changes to our national training programmes, particularly modern apprenticeships, to ensure that public investment supports our Government's Economic Strategy.

The changes include refocusing of new public sector contributions for Modern Apprenticeships 20+ to construction and engineering related sectors where we can demonstrate that our investment delivers results. Furthermore we have increased the number of such Modern Apprenticeship opportunities by 500 to support individuals in industries that we recognise face particular training pressures. Adult apprenticeships are an important part of the skills development framework. However, the Government's priority will be in offering modern apprenticeship opportunities for 16–19 year olds to increase the proportion of positive and sustained outcomes for Scotland's young people.

We are committed to ensuring the availability of the right skills interventions for employers and individuals to encourage skills utilisation and upskilling for the benefit of the Scottish workforce. We would expect SEMTA to actively engage with Skills Development Scotland's review of their delivery of our National Training Programmes to ensure improved outcomes for all.

We have tasked Skills Development Scotland (SDS) with improving the quality of its delivery both in relation to information, advice and guidance. The Scottish Government, in partnership with SDS has now begun work on future business model development which will include looking at Modern Apprenticeships. We are encouraging all sectors and employers across Scotland to feed into this process. We would urge the Ministry of Defence to ensure that they engage SDS and ensure their views are known by SDS.

2. The Scottish Executive must ensure that industry continues to see Scotland as a good area for investment due to the highly skilled workforce. Scottish Enterprise also has a role to play in promoting Scotland to industry and working to develop existing Scottish industry. We are concerned that Scottish Enterprise has not been sufficiently pro-active to date and hope that the re-launch of Scottish Enterprise on 1 April 2008 will lead to greater success in promoting and supporting Scottish industry. (Paragraph 69)

We reject this assertion. Scottish Enterprise is, and will continue to be, pro-active in promoting Scotland to industry and in working to develop existing Scottish industry. The

Aerospace, Defence & Marine industry group in Scottish Enterprise, formed from the previous industry groups in this sector (Aerospace & Defence and Shipbuilding & Marine) has been, and will continue to be, extremely active in promoting Scottish opportunities and the industry generally, both at home and overseas.

From an employment and skills perspective Scotland is significantly more advanced in its coordinated approach and actions than the rest of the UK. This is set to intensify with the adoption of an even more industry-led and focused approach and the creation of a revised and expanded Industry Advisory Group. This will provide an important forum where industry and public sector partners work together to agree a shared vision for sectoral growth and where industry and public sector partners identify and agree respective roles and priorities for action.

3. We urge all stakeholders, including the Ministry of Defence, Skills Development Scotland, the Scottish Enterprise and defence companies to work together to promote careers in the defence sector and support the work of education providers in widening access to skilled employment or further training. We urge the Scottish Executive and local authorities to examine the apparent biases within the education system in favour of the academic stream and urge them to take appropriate action to boost the standing of vocational options. (Paragraph 70)

Scottish Government agencies (formerly Scottish Enterprise, and now a combination of Scottish Enterprise, Skills Development Scotland and other public bodies) have been acknowledged by the industry as being the most advanced in the UK in addressing the skills needs of the Scottish shipbuilding industry (eg in the CVF project). A comprehensive partnership approach has been, and will continue to be, adopted. This will be supported by substantial marketing funds, aimed at addressing all appropriate target audiences from school pupils to the long term unemployed, all aimed at promoting career opportunities in the shipbuilding industry. This approach also is designed to use the current vibrancy of shipbuilding sector to develop a pipeline of skilled personnel to serve the wider engineering industry in the long term.

In the wider sense the Scottish Government is fully committed to building a smarter Scotland by equipping people with the skills, expertise and knowledge for success. This commitment to skills is reflected in Curriculum for Excellence and in the recently published curriculum guidance ‘building the curriculum 3—A framework for learning and teaching’¹ which clearly states that every child and young person is entitled to develop, through the curriculum, skills for learning, skills for life and skills for work. These skills include the development of pre-vocational, enterprising and employability skills, personal skills, high levels of cognitive skills and the opportunity to put learning into a practical context. The Scottish Government is also committed to developing curriculum guidance on how Curriculum for Excellence can support young people in developing these skills.

This focus on skills reflects the Scottish Government’s commitment to all types of learning. Skills for Scotland—A Lifelong Skills Strategy for Scotland² includes commitments to:

¹ <http://www.scotland.gov.uk/Resource/Doc/226155/0061245.pdf>

² <http://www.scotland.gov.uk/Resource/Doc/197204/0052752.pdf>

- Parity of esteem between vocational skills and qualifications and academic skills and qualifications;
- Address the issue of capacity which acts as a barrier preventing young people from accessing vocational learning opportunities; and
- Engender a change in attitude by undertaking research into changing attitudes to vocational learning and challenging those providing advice to young people.

This Government's commitment to providing more school pupils with opportunities to experience vocational learning is already reflected in the concordat between the Scottish Government and COSLA³.

One way in which young people can access vocational learning is through a Skills for Work qualification. These qualifications have been designed to provide school-age learners with opportunities to develop employability and specific vocational skills through practical experience. Following a 2 year pilot Skills for Work qualifications are now available to all schools and colleges across Scotland. An independent evaluation of Skills for Work⁴ published in February 2008 concluded that schools, colleges, providers and young people were committed to the value of the qualifications which they considered to have raised the status of vocational learning. A range of Skills for Work qualifications are available, including in Engineering Skills, with new qualifications in development.

In addition, a new HNC Shipbuilding award has been developed, the only one of its type in the UK, to provide candidates with appropriate technical and vocational skills to work within the shipbuilding industry. This qualification not only helps support the campaign to recruit into the shipbuilding industry by providing an aspirational qualification, but it also sends out a clear signal of Scotland's intent on remaining in, and indeed developing, its increasingly high-technology shipbuilding industry. However, recognising the need to ensure transferability of skills to the wider engineering sector, the curriculum for the HNC in Shipbuilding comprises modules and qualifications in a wide range of engineering skills that will be equally of use in other engineering sectors. Successful HNC candidates will therefore effectively have a series of appropriate qualifications, endorsed by the Sector Skills Council (SEMTA). The award has a solid foundation of theory and practice upon which candidates can enhance their practical skills and gain an understanding of Naval Architecture and Shipbuilding Principles.

The development of this award was enhanced by the involvement of relevant employers in the shipbuilding industry. These employers were involved in the development of the award structure and content of the Units of the award to ensure that their business requirements were being met.

4. With a limited amount of guaranteed work after the CVF programme it is possible that the majority, or the entirety, of the work for the Joint Venture could be carried out in the VT yard in the south of England rather than Scotland. We urge the Ministry of Defence, BAES and VT to ensure that any decisions are communicated clearly and early to the workforce and consulted on. The Scottish Executive and Skills Development

³ <http://www.cosla.gov.uk/attachments/aboutcosla/concordatnov07.pdf>

⁴ <http://www.scotland.gov.uk/Resource/Doc/213863/0056853.pdf>

Scotland must ensure that education and training in Scotland continue to produce a highly skilled, highly motivated workforce. (Paragraph 81)

Skills Development Scotland (SDS) is working in partnership with the Scottish Enterprise Aerospace, Defence and Marine industry team on its campaign to promote careers in the defence industry and, in particular, in shipbuilding with strong links to the Carrier programme. Work is already underway on a recruitment campaign and a DVD-ROM marketing tool is already in use with the main shipbuilders, colleges etc to assist in their recruitment techniques. Marketing and PR agencies are now appointed and detailed creative and planning work is now underway with the aim of a campaign launch in Autumn 2008. We intend to incorporate links to this campaign into our proposed broader campaign 'the Path is Science and Engineering' which will promote these career opportunities more widely.

SDS is also working with Scottish Enterprise on the Scottish Marine Technologies Training Project (SMTTP) to co-ordinate skills provision and ensures the training infrastructure to deliver the volume and quality of skills required. This project is fully supported by Babcock Marine and BVT Surface Fleet.

The SMTTP will maximise the benefits of a skills supply pipeline that is designed to meet employers' needs and maximise local employment impacts. The pipeline will encompass training at all levels from pre-vocational through to graduate design and generic programme management skills, as highlighted by MoD, DTI, SEMTA and industry. Actions include:-

- developing a skills programme that corresponds to the modern industry's needs by including both traditional craft and critical transferable, generic skills, eg supply chain management, project management, negotiating, influencing, team building, and top leadership skills.
- work with a range of organisations, including SDS (Careers Scotland), Local Authorities, Jobcentre Plus and Further Education who have the expertise and resources in school vocational work, pre-vocational training, community engagement, and training delivery.

Specifically SDS has contracted for 1652 new Modern Apprentice places in engineering in 2008–09 with anticipated support for Babcock of 50 new Modern Apprentice places and support for BVT Surface Fleet of 90 new Modern Apprentice places. These 140 MA places directly support the CVF project delivery. For information, there were 1292 MA Engineering starts in 2007–08.

Following the anticipated reduction in peak shipbuilding employment after the carrier programme, SMTTP will also support the re-skilling of the shipbuilding workforce to help meet the needs of related sectors such as Naval Ship Refit, Renewable Energy, Marine Engineering and Construction.

Additionally SDS is developing a "Key Labour Market Sectors Approach", the aim of which is to provide a continuing supply of people taking up a career in the areas of Science, Engineering, Technology and Maths.

All of this is aimed at broadening the skills base in advanced engineering in Scotland—both in shipbuilding and in the wider engineering sector.

5. The defence industry is vital for Scotland. As well as contributing to the economy the defence industry also provides skilled employment opportunities. The defence industry, particularly the ship building industry, is in a more stable position than it has been for some time, largely due to the CVF programme. Scottish engineering and manufacturing is supported by a highly skilled workforce. However, once the carriers have been constructed, there are a number of challenges that the industry will have to prepare for. Those challenges include the potential impact of possible constitutional change with consequential loss of automatic access to the UK home market, limited success to date in the export market and the formation of a Joint Venture which could lead to more work being carried out in England. To prepare for these challenges, all stakeholders including the Ministry of Defence, the Scottish Executive, Scottish Enterprise, Skills Development Scotland, the Scotland Office and industry, need to work effectively together to ensure that Scotland's engineering and manufacturing base continues to be world class. (Paragraphs 87 and 88)

As Scotland is the natural home of warship building, we welcome the opportunities the manufacture of the carriers will provide. The performance of the Scottish yards and the Scottish workforce is second to none—on reputation, deliverability, quality of output and the skills of the workforce and in all circumstances will secure orders on the basis of their formidable skills, and a record of delivery which is second to none.

Right now, Scotland's defence and shipbuilding sector is trailing that of comparable, independent countries. Indeed, if our shipbuilding industry had the same share of manufacturing turnover and employment as the average across Denmark, Finland, Norway and Sweden, turnover would be £400 million higher than the current level and employment over 2,000 higher.

Since Labour came to power in 1997 we have lost almost 5,000 defence jobs in Scotland.

Scottish Government provides support to Scottish engineering and manufacturing companies with a specific focus on adding value and improving Scotland's economic growth rate. We encourage Scottish businesses to create and retain high value jobs in globally competitive manufacturing companies and we encourage closer networking and communication among engineering firms in Scotland.

To do this, the Scottish Government provides a wide range of support to manufacturing companies delivered through Scottish Enterprise and Highlands and Islands Enterprise, Local Authorities, Skills Development Scotland and Scottish Development International. This includes innovation and investment grants, help with trade overseas, practical support for companies to improve productivity and efficiency and business and product planning services. We have a comprehensive range of support specifically aimed at encouraging innovation—including innovation in engineering and manufacturing—from its earliest stages through to commercial outcome. The Scottish Government is also committed to supporting manufacturers in Scotland to improving their productivity and ensuring that they can compete globally. Our Scottish Manufacturing Advisory Service (SMAS) is

delivered by Scottish Enterprise. Currently 151 manufacturing improvement projects have been initiated, 81 of which have been completed and have achieved approx £17m GVA.

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