

# Agile skills for a changing economy:

## Addressing the delivery deficit

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Our

Scottish Future

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# About the authors

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Prior to that, Alastair led the representative organisation for Scottish higher education institutions, Universities Scotland, for 14 years. In that role, among other things, he championed the development of flexible pathways to and through university, so that people from the widest possible variety of backgrounds, at different stages of their lives, could benefit from higher education. That work led to a step-change in the number of people from disadvantaged backgrounds attaining degrees.

Alastair has also worked as a Senior Civil Servant in diverse areas of policy including environment, justice and education.

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## Daniel Turner

Daniel Turner is an academic and practitioner, specialising in regional economic policy.

He is a doctoral researcher at King's College, London, and formerly worked as civil servant for the UK Government and, at a regional level, as Senior Policy Adviser to the Mayor of South Yorkshire.

Dan authored Our Scottish Future's June 2025 report, *Innovation Nation: Good Jobs for Scotland's Future* and led the 2023 report *From Growth to Good: A Ten-Year Growth Plan for Scotland*.

He holds a degree in Philosophy, Politics and Economics from the University of Oxford and a Masters in Public Policy from the Harvard Kennedy School.



# Introduction

We need the right skills to fuel Scotland's transition into an innovative and green future. We also need individuals to have the right skills so they can earn a good living in a changing economy.

Multiple Scottish Government reviews, including the Withers Review, have affirmed these priorities. But that has not yet been translated into effective policy implementation to achieve these outcomes.

In fact, things appear to be going in reverse. The Scottish Government is focussing on public-sector organisational structures while skills development withers on the vine and fewer people receive the training they need.

We have a delivery deficit. Reviews are commissioned and their recommendations left on the shelf. Funding is left to wither away or find itself redirected. Improvisations are added to the skills system without any heed for the cumulative effect. The result is an often-inefficient system which adds up to less than the sum of its parts.

There is an urgent need, and an opportunity, to turn this around. There are steps that the current Scottish Government can take now. And as we approach the 2026 Scottish parliamentary elections, each potential party of government needs to make manifesto commitments to practical action to up-skill Scotland.

In our view, Holyrood-driven tinkering is more than foible of one particular government. It is a broader temptation, which misses the opportunities of combining top-down with bottom-up initiatives. In its place, this paper outlines how government can enable an agile system that develops the skills that individuals and responds to employers' needs by default, rather than always having to rely on cumbersome or unresponsive bureaucracies.

At the heart of our proposals are plans to give greater agency to local and regional decision-makers – including, crucially, businesses and individuals – while getting the Scotland-wide system back on track, by:

- Building the right incentives for businesses and individuals to invest in skills development at the grassroots, supported by a Scottish Government commitment to stop raiding the Apprenticeship Levy for other priorities.
- Providing proper resourcing and cutting back the bureaucracy that has stifled apprenticeship innovations by employers and training providers.
- Empowering a middle layer of regional civic leadership, industry and education/training providers, who are often best placed to anticipate and meet changing skills needs in a dynamic economy.

# Where are we starting from?

## A system of drift and dysfunction

Many actors are involved in building peoples' skills for success in a changing economy. Schools have a vital role in developing the core literacy, numeracy and analytical skills for success in future life. Colleges have a central role, spanning from late school years to advanced in-career learning, in developing work-relevant skills. Universities provide a wide range of degrees and short courses for professional development as well as ensuring that graduates are developing core employability skills for any career. Employers and independent training providers have a vital role in addressing workforce development needs.

All of these levels of provision are in trouble. There has been a marked deterioration in the performance of Scotland's schools since the introduction of the Curriculum for Excellence in 2010.<sup>1</sup> From leading the UK, the performance of Scottish students on international PISA tests has been slipping for decades even as scores elsewhere in the UK have turned around.<sup>2</sup> Colleges are shedding jobs and cutting opportunities for learners; illustrated most recently by Scotland not having the resources to train urgently-needed welders for the defence sector<sup>3</sup>. While Scotland's universities continue to maintain international excellence, they too are facing financial difficulties that are being addressed through cutting jobs and courses. Private sector training providers report a paralysis of indecision by Scottish Government about what training to fund<sup>4</sup>.

Discussion of the Scottish education system often under-prioritises the development of intermediate skills, workplace training, and technical qualifications. And that comes despite findings from the Social Market Foundation, commissioned by Our Scottish Future, that Scotland's most pressing skills gaps come precisely at these intermediate and technical levels, and the need for agile in-career re-skilling opportunities.

The state of that broader skills system – colleges, employer-led training, microcredentials, re-skilling and private provision – in Scotland is sobering. We find that:

- Colleges are facing an acute funding crisis. The Scottish Funding Council's September 2025 report on colleges' financial sustainability says that 'most colleges are not sustainable' in the light of increased costs and reduced funding.<sup>5</sup> In the face of a 20% real-terms funding cut since 2021/22, colleges are delivering less teaching to fewer students. 30,762 fewer students attended college in 2023/24 than in 2022/23, a decrease of 12.4 per cent.<sup>6</sup>

1 <https://www.enlighten.scot/pisa-2022-in-scotland-declining-attainment-and-growing-social-inequality-lindsay-paterson/>

2 <https://ifs.org.uk/publications/socio-economic-inequality-scottish-education>

3 Babcock turns to overseas welders amid Scottish skills gap

4 STF-Press-Release-No-One-Left-Behind-budget-still-in-limbo-despite-being-raised-with-former-First-Minister-9-May-2024.pdf.  
pagespeed.ce.XzhWepsnsa.pdf

5 Financial sustainability of colleges in Scotland 2022-23 to 2027-28

6 Briefing: Scotland's colleges 2025

- Modern Apprenticeship starts have declined since 2019.<sup>7</sup> Employer demand for Modern Apprenticeships is around 25% higher than Scottish Government-funded supply, with annual demand for c34,000 apprenticeships being met by a supply of only c25,500 funded apprenticeships.<sup>8</sup>
- It typically takes years of bureaucratic process to agree the frameworks for new apprenticeships, which makes it practically impossible for employers to work with training providers, colleges and universities to develop apprenticeships that meet changing industry needs.<sup>9</sup>



7 Apprenticeship starts (Scotland) - ONS

8 written-evidence-from-sds-\_-skills-delivery.pdf

9 US-TET-Stage1-Debate-Brief-GAs-v-1.0.pdf



## What response have we seen so far?

We have seen multiple waves of top-down strategising to tackle these gaps between supply and demand. For instance:

- The Enterprise and Skills Strategic Board tried to co-ordinate the work of the various Scottish Government agencies with responsibility for skills development.<sup>10</sup> There are no obvious outcomes from that work.
- The Climate Emergency Skills Action Plan correctly identified the need for re-skilling of the existing workforce to meet the changing needs of the energy industry, but is short on practical ways of achieving that.<sup>11</sup>
- The Withers Review of the skills delivery landscape was asked the wrong question. It was asked to review the organisation of the public sector delivery agencies, while what industry was telling the review was that they needed effective practical help in skilling and re-skilling the workforce.<sup>12</sup>
- The Scottish Government is currently focused on legislation to transfer functions from Skills Development Scotland to the Scottish Funding Council. While there is a sound rationale for this, it does not do anything immediate to improve skills development.<sup>13</sup>
- The Scottish Government has decided to nationalise skills planning in the light of the Withers Review.

In other words, there has been no shortage of skills strategies from the Scottish Government. However they have all failed because they have over-concentrated on the organisational structures of the public sector instead of focussing on the development of practical means of supporting skills development.

What's worse, they have not been backed by funding that matches the rhetoric of the government's support for skills development. The Scottish Government has actually stopped programmes that were making a real difference to meeting employers' needs and up-skilling individuals:

- The Flexible Workforce Development fund provided c£10m per year from 2017 onwards to enable employers to up-skills and re-skill their workforces, and was evaluated as being successful.<sup>14</sup> However this fund was abolished in 2023.
- Individual Training Accounts supported eligible participants with up to £200 per year to access training to gain an industry recognised certificate and boost their employability. These were axed in the 2024/25 Scottish Budget.

<sup>10</sup> Enterprise and Skills Strategic Board - gov.scot

<sup>11</sup> climate-emergency-skills-action-plan-2020-2025.pdf

<sup>12</sup> Skills Delivery Review - Call for Evidence Analysis of responses

<sup>13</sup> Tertiary Education and Training (Funding and Governance) (Scotland) Bill | Scottish Parliament Website

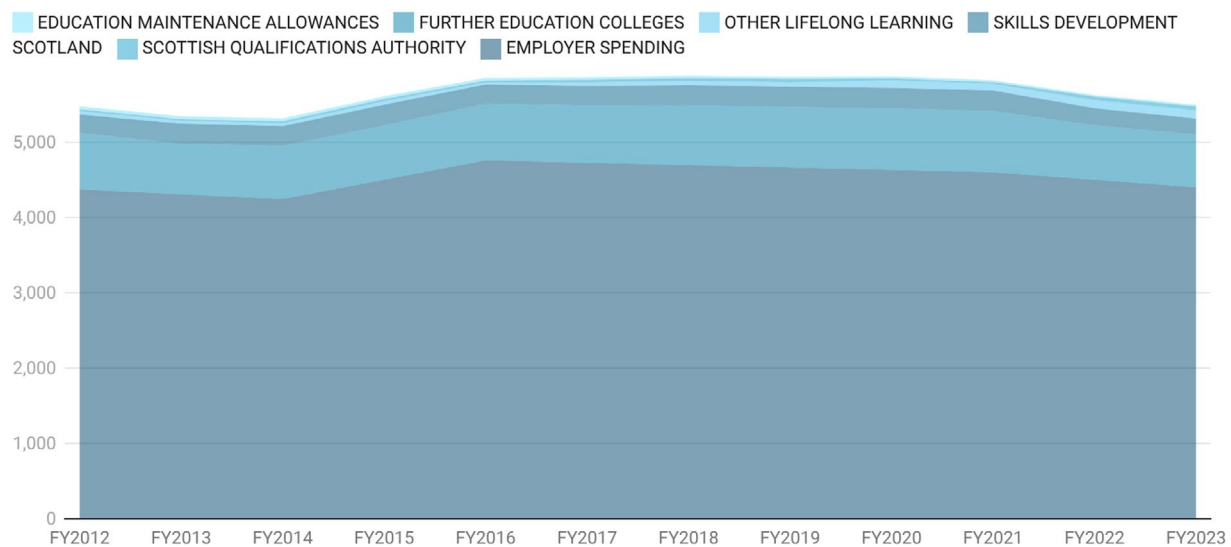
<sup>14</sup> Flexible Workforce Development Fund (FWDF): evaluation - gov.scot

- The National Transition Training Fund was a £25 million fund which aimed to tackle the increase in adult (age 25+) unemployment due to COVID-19 by offering training for new job opportunities, but the Fund closed in 2022.
- The Young Person's Guarantee, providing post-COVID opportunities for under-25s' employment and training, was 'mainstreamed' into other policies in April 2023.
- The Scottish Funding Council allocated c£7m per year to universities for short upskilling/reskilling courses to help people change their skills to succeed in a changing employment market. This was abolished in 2024.

Industry is also complaining that while larger employers in Scotland are paying the UK-wide Apprenticeship Levy, the Scottish Government does not have programmes in place that enable them to access this money for its intended purpose in workforce development.<sup>15</sup> Around £270m per year reaches the Scottish Government from this levy, but this is absorbed within the overall Scottish Government budget rather than being ring-fenced for skills development.<sup>16</sup> By one calculation, £171m of Apprenticeship Levy funding has been diverted to other Scottish Government priorities.<sup>17</sup>

The result has been a continual decline in employer spending on skills per employee in Scotland since 2011. 73% of employers offered training to employees in 2011, compared to 63% in 2024. Overall employer training expenditure in Scotland is £4.4bn (in 2024, the latest available data), down from £4.6bn in constant terms for 2022.<sup>18</sup> And since 2021, further education current spending has decreased by 12%, with Skills Development Scotland spending down by 23% - a marked deterioration in response to the inflationary shock of 2022.

### TOTAL SPENDING ON SKILLS (PUBLIC AND PRIVATE, 2024 £MNS)



Source: ESS, GERS and HMT deflator Created with Datawrapper

Interactive visualisation: <https://datawrapper.dwcdn.net/4y13e/1/>

<sup>15</sup> SCC Response to Scottish Government's Reforms to National Education Bodies - Scottish Chambers Scottish Chambers

<sup>16</sup> SNP accused of 'raiding' £150million from apprenticeship fund | The Herald

<sup>17</sup> Government accused of 'raiding' £171 million from apprenticeship funding - STF

<sup>18</sup> Employer Skills Survey 2024 - Scotland



# Where do we need to go?

There is a broad consensus about how Scotland's economy should develop, and what that means for skills development. Multiple sources, from diverse political perspectives, point in the same direction including the Scottish Government's National Strategy for Economic Transformation,<sup>19</sup> the Scottish Council for Development and Industry (Prosper)'s Blueprint for the 2030 economy,<sup>20</sup> and Our Scottish Future's Innovation Nation report.<sup>21</sup> There is also a shared view that we do not yet have the right measures in place to address the skills needs of a changing economy:

- A prosperous Scotland, with good jobs for all, will be led by innovative industries with strong productivity and growth, scaling-up in Scotland because there are skills and infrastructure here that enable their success.
- In the medium-term (the next 5-10 years), the broad outline of changing skills needs is discernible. We can identify the task-specific skills that will be required (such as a new cohort of domestic energy retrofitting workers; or expanded the use of AI, sensors and other advanced technologies in manual trades) and existing labour intensive jobs where demand will fall (such as providing paralegal assistance).
- That does not mean we can neatly plan the skills system, however, even on that limited time horizon. A general pattern will vary radically place-by-place as major employers open or close, and as the skills profile of their workforces change. And we know that tasks like domestic energy retrofitting – while closely tied to other construction occupations – will have a limited time horizon. Our skills system must be agile and adaptable, since people will require significant task-specific retraining over their careers, sometimes in unpredictable and urgent ways.

## What does this mean for government policy?

- Government and its agencies (at UK, Scottish and local levels) have a key role in enabling the nation's prosperity through investment in skills and infrastructure, and creation of a competitive business environment.
- Much of the focus of innovation and growth will be regional. City and Region Deals, and Regional Economic Partnerships, have demonstrated the power of city regions to mobilise the private and public sectors to create jobs and growth. In Our Scottish Future's view, this should be taken further through the creation of democratic Strategic Combined Authorities at city region level.<sup>22</sup>
- One of Scotland's challenges is the predominance of employment in SMEs, many of which do not have the resources to invest in staff development.

19 Scotland's National Strategy for Economic Transformation - gov.scot

20 Scotland's Blueprint: The Art of the Possible - Prosper

21 [ourscottishfuture.org/wp-content/uploads/2025/06/Innovation-Nation.pdf](https://ourscottishfuture.org/wp-content/uploads/2025/06/Innovation-Nation.pdf)

22 Rewiring-Scotland.pdf

So we need an **agile system** for skills development, responsive to changing market signals about precisely what is required. Elements of this include:

- An education – in schools, colleges, and universities – that builds core employability skills that are transferable between different roles including problem-solving, teamwork and communication skills.
- Training that adds technical and professional knowledge to these core skills, adaptable as the needs of industry change – closely linking current and near-future industry needs with local provision and putting the incentives of employers (including SMEs) and workers at the heart of the system.
- Lifelong learning provision for all, so that people can develop and change their skills as opportunities in the labour market change.



# How do we get there?

There is a shared frustration across politics, civic society and industry that we do not yet have an agile system for skills development despite decades of reviews and strategies.

We do not need another review. We need government and its agencies to get on with doing things that will make it easier for individuals and enterprises to develop the skills they need.

## Immediate action

The Scottish Government should commit to **investing the full Scottish proceeds of the Apprenticeship Levy (and the forthcoming Growth and Skills Levy) into skills development**, adopting the individual employer accounts model used in the UK to clearly tie the Levy to a firms' own training plans. There should be clear transparency about the amount of these resources and how they are being spent.

This decision would immediately release around £50-60m per year back into Scotland's apprenticeship system, and crowd in further private spending. These resources should be used to put apprenticeships and college places back on a trajectory of growth, and to create incentives for employers and individuals to up-skill and re-skill to meet the changing needs of the economy.

Work should start now at civil service and public authority level to design these incentives, so that the new Scottish Government can move swiftly to introduce new measures for agile skills development.

The manifestos of future parties of government should affirm that they are committed to the measures outlined above, **providing a clear signal of political leadership on the need to shift the culture of decision-making** and the prioritisation of skills within Scotland's political system.

## Early in the new Scottish Parliament

The new Scottish Government, of whatever political complexion, should commit to the earliest possible introduction of **measures to boost the agile development of the skills** needed in Scotland's changing economy by introducing a clear policy commitment to deliver the system set out in this paper in its first Programme for Government.

At the level of overall principles, the new administration should affirm that it holds **all levels of education and professional development in equal esteem** – for example, the development of vital technical skills in manufacturing or the service industries is as valued as traditional 'academic' pathways – and seeks to build a skills culture in Scotland to reflect that parity.

While the specific professional skills needed by individuals and employers will change, core employability skills will always be required including literacy, numeracy, digital skills, problem-solving and teamwork. The new administration should commit to **prioritising the**

**development of core employability skills at all levels of education**, and conditions of grant should require the development of employability skills in all Scottish Government-funded provision.

All the agencies of government – including Scottish Funding Council, Skills Development Scotland and Qualifications Scotland along with the Enterprise Agencies – should have **a clear commission to support the agile development of products that will meet the changing skills needs of the economy.**

## National, regional, enterprise and individual levels

The new Scottish Government should work with public bodies, local authorities and industry to define and develop an ecosystem where initiative rests at the right levels. Broadly speaking:

### AT NATIONAL LEVEL

Government should develop and periodically refresh an overview of likely overall changes in skills needs in the economy and whether there is provision and incentives that are likely to meet those needs. They can inform this through intelligence from Regional Economic Partnerships and Industry Leadership Groups.

### AT REGIONAL LEVEL

This is already the level where strategic initiative is being taken to anticipate skills needs and plan for their provision, and this should be driven further. City and Region Deals, and Regional Economic Partnerships, are bringing together civic leaders, industry, education and training providers, and public bodies to plan practical actions to boost economic growth. This is not just relevant to the city regions – for instance the Workforce North initiative is mobilising initiative across the Highlands.

Our Scottish Future<sup>23</sup> is arguing that we should build from these foundations and create Strategic Combined Authorities at regional level, to strengthen civic leadership and co-ordination of growth. Once these new leadership structures are in place there should be a major devolution of responsibility to them for skills development planning and provision.

### AT ENTERPRISE LEVEL

Levy-paying enterprises should have access to skills development products that are financially supported by the levy. SMEs should have access to schemes that enable them to access training and development affordably, whether purchased from independent training providers or purchased from colleges/universities through Scottish Government-subsidised online comparison platforms for courses. A revised Flexible Workforce Development Fund would be a welcome contribution.

Businesses should make a proportionate contribution to the costs of skills development for their employees, e.g. contributing to the costs of Graduate Apprenticeship higher education courses which are currently fully-funded by the Scottish Government, or to top-up the funding of Modern Apprenticeships.

<sup>23</sup> Rewiring-Scotland.pdf

As a condition of grant, enterprises should be required to ensure that staff have a “Right to Learn”, guaranteeing all employees five paid days of L&D upon request (with evidence of skill development), if their employer fails to provide five days themselves.

The Scottish Government should work with the UK Government to design tax incentives for enterprises to invest in staff skills development.

#### AT INDIVIDUAL LEVEL

Individuals should have lifelong access to schemes, supported by government grants or loans, that enable them affordably to invest in their own skills development to ensure that they have the skills to secure good-quality employment in a changing economy. Government should ensure a fair sharing of cost between the state and the individual.

### Getting the right products in place

The products that the new Scottish Government should urgently put in place include:

- **Incentives for business to invest in upskilling and re-skilling their staff**, in part from the creation of employer specific-hypothecated accounts for the Growth and Skills Levy. Within a limited resource, these could be focussed on meeting skills gaps, and on re-skilling employees whose existing skills are becoming redundant e.g. through AI or other technological change. There needs to be a particular focus on making skills development affordable for SMEs.
- **Incentives for individuals to up-skill and re-skill in-career** so that they can realise their full potential, whether with an existing employer or to take advantage of new opportunities. Again, a limited resource could be focussed on people whose skills are being overtaken by redundancy or technological change.
- For people further from the labour force, **urgently review the No-One Left Behind programme** to ensure that it is consistently offering skills development and placements that get people into decent jobs,<sup>24</sup> informed by learning from the Young Person’s Guarantee and National Transition Training Fund.
- **Broaden the scope of funded apprenticeship provision** by allowing employers to co-develop new training products directly with providers including colleges and universities. This cuts out the innovation-stifling bureaucracy that takes years to approve new products. At the same time, additional funding should be made available where it can be shown that a lack of resources – rather than cultural barriers – is holding up accreditation.
- **Incentives for colleges and universities** to develop short up-skilling and re-skilling courses to quickly meet the needs of businesses and individuals for new skills.
- Require providers to develop **‘stackable’ modular qualifications** so that people can develop skills over a time that meets their needs and through multiple providers, with accredited micro-credentials along the way, building towards overall qualifications such as Higher Nationals and degrees.



- To boost work-based higher education - improve pathways into **Graduate Apprenticeships** so that these are a viable work-based alternative to university rather than (as at present) being available to people who are already employed. Support this with a balance of state and employer funding that recognises the risk the employer is taking with an un-tried Graduate Apprentice.

## Longer term

Scotland's most pressing challenges all stem from its delivery deficit. There is a pressing need to get on with doing things now to create an agile skills system – as set out above. These proposals are, for the most part, reasonably straightforward and can be done as evolution of schemes that have already been trialled in Scotland or elsewhere in the UK. They just require the political commitment and will to drive cultural change.

But, while not as pressing a priority, short-term fixes to the system should not be a barrier to more profound thinking about Scotland's future needs. The logic we have set out above, of agility and a reallocation of responsibility so that power and agency is held where it can be put to best effect, point to a bundle of longer-term reforms that should be kept in mind as shorter-term fixes are put in place. These include:

### INDIVIDUAL LIFELONG LEARNING ENTITLEMENT

A career-long individual entitlement to skills development, to a particular value or for a particular total amount of learning, co-funded by the state and the individual.

Those who attend university in Scotland receive an education subsidy worth perhaps £30-40,000; those same opportunities should be made available to those outside the university system to support further and life-long learning, addressing a fundamental inequity in our current skills system.

### MODULAR FUNDING

Funding that follows the learner, rather than being allocated to the education/training provider, and which is portable between different providers. This could usefully support a more flexible system of stackable credentials, where study at diverse providers at the learner's own pace can build towards qualifications.

### TECHNICAL EDUCATION IN THE SENIOR PHASE AT SCHOOL

Introduce S-Levels, a Scottish technical qualification with equal esteem to Highers/Advanced Highers that can be pursued in school or college as a foundation towards an HN, degree-level apprenticeship or a technical career. Co-designed with business, and drawing on the lessons of T-levels in England, the S-Levels should align with regional industrial strategies and Growth Zone strengths, providing a talent pipeline for rapidly expanding Scottish enterprises.

### REVIEW THE CONTENT AND FUNDING METHODOLOGY OF MODERN APPRENTICESHIPS AND HIGHER NATIONAL QUALIFICATIONS

Work with employers and education/training providers to ensure that these have the right blend of developing core employability skills and technical content, both for immediate relevance and for continued professional/educational progression. Concentrate funding



for employers on the part of the apprenticeship/course where the individual is still developing core skills.

### ENHANCING THE ROLE OF COLLEGES

Develop the role of colleges as US-style Community Colleges with a wide range of employer-informed modular provision across SCQF levels from upper secondary to higher education, the ability to learn at any careers stage, and seamless progression to the upper years of university for those who choose that.



