

REVIEW OF GOVERNMENT SUPPORT FOR MARITIME TRAINING

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REPORT OF INDEPENDENT PANEL REVIEW ON MARITIME TRAINING

EXECUTIVE SUMMARY

1. Following a ministerial announcement in December 2010, Parliamentary Under-Secretary of State for Transport commissioned an independent review of the economic requirement for trained seafarers in the UK. The review was completed by consultants from Deloitte and Oxford Economics in November 2011, and a report detailing a number of options produced.

2. A panel comprising five specialists from the maritime industries, with a sixth member from outside the sector as an independent chair, met three times to consider the consultant's report and makes recommendations for the future.

3. The conclusions of the independent review panel are that:

- There is a demand for UK trained seafarers at sea, which is enduring, and if action is not taken then potentially there will be a gap of circa 3,500 deck and engineer officers at sea by 2021.
- There is a demand for UK trained ex-seafarers ashore. This is mainly for qualified and experienced officers, and likely to be met for the foreseeable future from existing training resources. The UK dominates this market with 80% of posts filled, and forecast to continue to be filled by UK trained staff. As at 2011 there is a current shortfall of some 1,100 ex-seafarers which will increase to a shortfall of 1,600 by 2021.
- The requirement for UK trained ratings both at sea and ashore is relatively low albeit with a net deficit of circa 800 forecast nationally by 2021, however there is an immediate need to develop the next generation of UK ratings for the short-sea, coastal and offshore (including renewables) sectors.
- Seafarers contribute significantly to the wider UK economy. SMarT has had a positive impact, over and above tonnage tax, in increasing the numbers of UK seafarers.
- A number of options (which are consistent with already declared Government intent, or are practiced elsewhere), or a combination of them, might provide other cost-effective means of meeting the requirement.
- To ensure the supply of trained seafarers for the future, Government intervention is still required. Although it is difficult to make a precise judgment on the effectiveness and efficiency of the existing funding arrangements, both the Panel and the consultants' view is that SMarT has proved successful in terms of wider economic benefit to the community generating return rates at £14,500 per annum in excess (i.e. 33%) of a UK worker displaying average productivity and represents value for money.

Recommendations

4. Against the background of the current austerity measures, but in recognition of the consultant's advice on the maritime sector's wider economic benefit and contribution to the Government's growth agenda, the independent review panel recommends that the Minister:

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- Continues SMarT in its current form and at its current level unless and until there is a demonstrable viable alternative.
- Considers whether he wishes to test the impact of a change in SMarT funding levels.
- Considers whether he wishes to commission further study work into one or more of the following options, and if so in what timescale:
 - a) Students bearing a part, or the full cost, of their training;
 - b) The introduction of a levy and grant system similar to that used in the construction industry;
 - c) An apprenticeship model.
- Introduces for the future a more robust and focused audit and accounting regime for the SMarT training budget.
- Examines whether the SMarT budget currently administered through DfT might not be better administered by BIS.

REPORT OF INDEPENDENT PANEL REVIEW ON MARITIME TRAINING

INTRODUCTION

1. Following a ministerial announcement in December 2010, Parliamentary Under-Secretary of State for Transport commissioned an independent review of the economic requirement for trained seafarers in the UK. The review was completed by consultants from Deloitte and Oxford Economics in November 2011, and a report detailing a number of options produced.
2. The Minister subsequently invited an independent panel to review these options, and to make recommendations to enable him to come to a decision on the requirement for UK Government support for training and skills development in the maritime sector and, if appropriate, the scale of and how best to spend any continuing Government funding.
3. A panel comprising five specialists from the maritime industries, with a sixth member from outside the sector as an independent chair, met three times to consider the consultant's report: to review its content against the agreed terms of reference; to examine the qualitative and quantitative evidence, and its robustness when subject to close scrutiny; and to consider the financial arguments for and against their recommended options.

AIM

4. This report details the findings of the independent panel review on maritime training and makes recommendations for the future.

TERMS OF REFERENCE

5. The review required the consultants to:
 - Review the UK requirement for trained seafarers at sea over the next decade;
 - Review the UK requirement for trained seafarers ashore over the next decade;
 - Examine the extent to which the above requirements have to be met by UK seafarers;
 - Review the effectiveness and efficiency of the existing funding arrangements and the future need for Government intervention to ensure the supply of trained seafarers;
 - Identify options for supporting the training of seafarers and make recommendations which address the issue of value for money and are reflective of future UK requirements for trained seafarers;
 - Examine whether previous training targets are reflective of future needs.

INDEPENDENT PANEL'S FINDINGS

Seagoing Requirement

6. The panel considered that the consultants' review of the UK requirement for trained seafarers at sea over the next decade (2011-2021) was broadly accurate. They agreed that the assumptions made were appropriate and that these were dominated by the requirements for officers rather than ratings. On this basis it was likely that the current total demand for deck and engineer officers at sea in the UK controlled fleet would increase from 27,200 to 36,500, and that the proportion of those coming from the UK to meet UK industry needs was likely to fall from 11,200 to 7,300, which presumed that support continued at the 2010/11 levels (£15million). Effectively this reduced the UK contribution for deck and engineer officers at sea from circa 40% to circa 20% over the next ten years.

7. The panel noted that on these predictions the forecast gap for sea-going officers would rise from 200 in 2011 to 3,500 in 2021, if no further action were taken, and that even if all these posts were filled by UK officers their sea-going share would still fall from circa 40% to circa 30%. The panel concluded that a potentially greater demand for UK officers at sea than currently planned could be met and be in the interests of UK plc on the basis of economic benefit arguments, if Government so wished, and if this was affordable.

Shore-based Requirement

8. The panel noted the consultants' findings with respect to the UK requirement for trained seafarers ashore over the next decade. They acknowledged the strong qualitative evidence provided which suggested an overwhelming preference for UK qualified and experienced personnel in UK shore-based posts. In particular, they noted that whilst the total demand for ex-seafarers by UK industry rose from 17,300 in 2011 to 18,400 in 2021, the UK component of this dominated from 14,100 in 2011 to 14,600 in 2021. They further noted that whilst this resulted in a net increase of 500 ashore, the supply of foreign ex-seafarers rose by only 100 from 2,100 to 2,200, over the same period resulting in an increasing gap ashore from 1,100 in 2011 to 1,600 in 2021.

9. The panel concluded that whilst a figure of 80% ashore from the UK was high, and to a degree driven by legacy issues of retiring UK seafarers from higher past recruitment pre-1980s coming ashore after careers at sea, there was no enthusiasm from the industry, or any financial imperative, to adjust this. Indeed, if necessary and desired by Government, numbers could be increased in the short term. In the longer term, 10-20 years, with fewer UK seafarers being trained the numbers available to move ashore once they had accumulated adequate experience would naturally fall, but neither the consultants nor the industry were able to quantify this impact.

Meeting the Need

10. The panel agreed with the consultants that whilst there was no overriding commercial reason why the sea and/or shore based requirements needed to be met by UK seafarers, the qualitative evidence in practice was a strong preference for UK officers, in particular, ashore. No detailed establishment had been generated for the shore-based component, but there were strong strategic

arguments around safety, security, and having a reservoir of transferable skills in former seafarers for supporting, and supported industries (ports, shipping and maritime business services¹) which, in the panel's view, gave substance to the consultants' arguments. It was the strong view of the panel that if the UK based seafarer skills base declined there would be an inevitable loss of associated businesses from the UK. For those sectors of the industry indigenous to the UK, a decline in UK seafarers would result in an increased reliance on non-UK personnel with a possible consequential effect on immigration policy.

11. Neither the consultants, nor the maritime industry specialists on the panel, were able to put a minimum percentage on the shore based requirement. Whilst all accepted that 80% was probably high, there seemed a reluctance to let this figure drop too low, and there seemed pronounced unease at suggestions that this might be much less than 60%, albeit that for the legacy reasons noted above this is unlikely to be an issue in the short term.

12. The panel's view was that on balance the qualitative evidence was sufficiently strong to suggest that shore based numbers were broadly right, albeit perhaps a little high, but that at sea the levels were tight, especially for deck and engineer officers, with the forecast reduction from circa 40% to circa 20% over the next decade. They concluded that if anything, there were arguments to increase this number, perhaps to 30%, subject to Government wishes and affordability, in the wider austerity context. However this took no account of the potential for further increases as part of the Government's growth agenda.

Training Targets

13. The panel considered the consultants' initial comments on whether previous training targets were reflective of future needs. In particular, their view that effectively there were no training targets, as they understood it. The panel took a different view. They noted that in 1998², actions were taken to address a then significant and predicted increasing shortage of qualified seafarers, with commensurate downstream issues ashore.

14. The panel noted that this was addressed by a strategy of a planned increase in cadet recruitment from circa 500 to circa 1,200 per annum. Whilst examination of the then data suggested an overly-pessimistic view of the industry, coupled with an overly-optimistic view of the ability to recruit 1,200 cadets per annum (in practice it had been closer to 850), the sector had largely remained in balance, suggesting a target for the future of circa 1,000 per annum to be not unreasonable.

15. The current level of Support for Maritime Training (SMarT) is £12m per annum, of which ratings' training comprises £500k (or circa 4%). It was clear to the Panel that on current plans, even with existing funding or other intervention to maintain cadet levels at around circa 850 per annum, UK trained officers at sea would fall by twenty percentage points over the next decade, and there would be a forecast national shortfall in 2021 of circa 3,500 deck and engineer officers. For deck and engineer ratings the position was similar with a potential deficit of circa 800 against a target of circa 32,000, albeit that only around 4,000 of these were from the UK. In addition there was a need to develop the next

¹ Oxford Economic reports (commissioned by Maritime UK) May 2011

² Charting a new course, December 1998 (Department of the Environment, Transport and the Regions)

generation of UK ratings for the short-sea, coastal and offshore (including renewables) sectors.

Effectiveness and Efficiency

16. The panel was not content with the consultants' initial analysis of the effectiveness and efficiency of existing funding arrangements and the future need for Government intervention to ensure the supply of trained seafarers. They considered the preliminary findings to be too qualitative and short on quantitative data, and evidence, albeit that on probing they accepted the arguments that there was evidence of 'market failure' and that on the basis of that evidence and other supporting material, particularly those produced by Maritime UK³, the maritime sector was sufficiently important to UK plc to merit continued intervention in training from Government.

17. Data presented subsequently by the consultants did suggest that because of interactions between the impacts of tonnage tax, with its implications for training cadets, and SMarT, it was difficult to be precise about the effectiveness of the intervention. For the year 2010/11 there was evidence of the impact of SMarT (and its predecessors GAFT & DOCS⁴) in the uplift of cadets by circa 200. The Panel noted that whilst analysis of previous years also showed significant (albeit variable) differences in impact, there was overall a positive effect attributable to this intervention, and potentially that the impact may have been greater by encouraging companies to elect into the UK tonnage tax regime⁵.

18. The consultants stressed the wider economic benefits to UK plc of the maritime sector as a whole, in bringing annual contributions through tax revenue of £7.8bn and GDP of £26.5bn from an industry employing over 530,000 people. Specifically they estimated that for each year a SMarT beneficiary worked, some £14,500 in additional output (i.e. 33%) was created relative to the output of a UK worker displaying average productivity. The panel accepted this as a statement of relative impact supporting the intervention, but on the basis of the evidence provided could not conclude that the work addressed the relative effectiveness and efficiency of SMarT compared with other options. They therefore reviewed all of the options identified in the report by the consultants.

Options for Supporting the Training of Seafarers

19. The consultants considered ten different options for supporting the training of seafarers and, in order to make recommendations which address the issue of value for money and are reflective of future UK requirements for trained seafarers, the panel reviewed each of these in detail. Of these options five - including two variants of SMarT at £12m and £15m per annum - were shortlisted and subject to further analysis. The panel's judgements on them were as follows:

Students Bearing Part or the Full Cost of their Training

19.1 This option is consistent with the Government approach in other areas of education and training where greater personal contribution

³ Oxford Economic reports (commissioned by Maritime UK) May 2011

⁴ Government Assistance For Training (Gaft). Development Of Certificated Seafarers (Docs)

⁵ Only the UK, and recently India, has a mandatory training requirement as part of the tonnage tax regime.

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is being sought from both employers and students in achieving their professional and vocational qualifications.

- 19.2 The view of the specialist members of the panel was that this would have a significant detrimental impact of meeting needs, making a career as a seafarer much less attractive. Nevertheless the panel recognised that there is a growing trend across Government for students to bear the cost of training, and as such the option could be considered further.
- 19.3 The panel further believed that this option would be problematic in the maritime sector because of the reserved nature of shipping policy and the devolved nature of education and training. On balance its benefit to cost ratio from the consultants' work also suggested this to be a low value option. Additionally, it did not feature in the consultants' recommended three options.

Levy and Grant System

- 19.4 This option is based upon parallels in the construction area where larger providers underwrite the costs of smaller organisations by means of a levy. The model would necessitate the identification of participants, in particular those non-shipping 'end users' of maritime training, and collection of grant contributions that would then be paid to shipping companies and other organisations providing sea training. The consultants' analysis suggests that from a broad based costing perspective the benefit to cost ratio would be high, but that from their research this might deter shipping and other maritime companies from locating in the UK. Nevertheless, it was one of their three recommended options.
- 19.5 The panel's view was that whilst this option might not be popular with stakeholders, and that practically it might also be costly to administer, it may merit further investigation and more detailed costing. There were, however, serious concerns about the negative impact of this option on the UK as a 'place to do business' when compared with competitors such as Singapore.

Apprenticeship Option

- 19.6 Recent advances between the Department for Transport (DfT) and the Department for Business Innovation and Skills (BIS) have established in principle the precedent of an apprenticeship route for ratings as a potential going concern. Complications remain in applying this to officers, because of the limitations around International Law and the requirement for officers under training to be treated as supernumeraries whilst apprenticeship terms require employed status.
- 19.7 To the panel these difficulties did not seem insurmountable. Particularly in view of Government focus on this training route ashore and the substantial funding available through BIS and the Skills Funding Agency, this option merited further detailed consideration and costing. The consultants had not considered this option in detail, but have provided some broad order costing information. This suggests that in spite of some serious short-term difficulties in establishing this as a training route, the benefit to cost

ratio for Government could be high and was therefore worthy of further study as one of their three recommended options.

- 19.8 The panel's view was that whilst it was unlikely that this option would produce support for officer training on current levels, and could have the unintended consequence of promoting a lower level HNC/D route rather than the Foundation Degree with a subsequent decline in skill levels, it still merited consideration.

Continuation of SMarT Funding

- 19.9 The benefits of the current SMarT provision against a background of a potential 60% matched funding from employers to the Governments 40% funding have been shown by the consultants to be £58m against a £30m investment, of which the Government contribution for the current year is £12m (compare with £15m for 2010/11⁶). The consultants' argument was that the benefit to cost ratio was high, and higher for Government inputs than the total benefit to cost ratio. They suggested that in value for money terms, the optimal policy solution, without reference to the current fiscal environment, would be to train UK seafarers to the point where total demand for them was fulfilled and gaps were zero. This was the consultants' preferred option.
- 19.10 The panel's view was that this was a tried and tested route, which was having success, but that in the current climate it was for Ministers to decide on affordability criteria if such an option could be sustained at £12m, or even increased. There was, however, an urgent need to provide some clarity to the sector, and associated training colleges, on the short-term intentions. The panel also noted that uncertainty regarding the funding was already having the effect of companies deferring their recruitment plans.
- 19.11 In the absence of any tangible costed alternatives, the Panel concluded that to continue SMarT at its current level was the preferred option and on the basis of the available evidence represented value for money. The Panel also acknowledged that there is a case for reviewing the current level of funding, in particular the impact of a reduction and an uplift of a further 25% (plus or minus £3m).

General Training Issues

20. In consideration of the options, the panel took the opportunity to review briefly the findings of the consultants on the suitability of current training models for both officers and ratings, when compared with those offered by other nations. The panel's view accorded with that of the consultants, that the current training models, with their balance of integrated sea and shore based training worked well, and that there was no evidence from stakeholders, providers or students to suggest a radical departure from the style, content or delivery of the training currently on offer.

⁶ The Panel also highlighted that the recent abolition of the Crew Relief Scheme (which totalled £2.3m) coupled with the reduction in SMarT funding in 2011/12 led to a total reduction of £5.3m for employment reliefs.

21. The panel noted that there were weaknesses with monitoring mechanisms regarding how existing SMarT funding was spent, and in particular how individuals were tracked and accounted for to completion of training. The panel considered that the process should be reviewed, with greater responsibilities placed upon providers to account more robustly for this intervention funding, comparable with the requirements currently exercised via the Skills Funding Agency (SFA) for shore based learners.

22. The panel also considered that, for coherence with other Government initiatives, part of this funding might be delivered by way of 'outcome' payments where a proportion of the funding is retained by the Department until such time as there is documented approval of the completion of the course of training. For deck and engineer officers this might be post their professional qualification as authorised, by the MCA.

23. The panel also questioned for a c£12m budget, in a departmental budget of circa £13bn, of which circa £5bn was on programme spending, why there was a need for this to come through DfT at all, and why it should not be administered directly as part of a more general and flexible series of Higher and Further Education budgets administered through BIS? Any change would, however, need to recognise the particular issues at the international, EU and the devolved administrations level.

Conclusions

24. The conclusions of the independent review panel are that:

- There is a demand for UK trained seafarers at sea, which is enduring, and if action is not taken then potentially there will be a gap of circa 3,500 deck and engineer officers at sea by 2021. If Government wished, and it was affordable, a potentially greater demand than that currently forecast in 2021 (20%) could be met as part of the Government's growth agenda.
- There is a demand for UK trained ex-seafarers ashore. This is mainly for qualified and experienced officers, and likely to be met for the foreseeable future from existing training resources. The UK dominates this market with 80% of posts filled, and forecast to continue to be filled by UK trained staff. There is a current (2011) shortfall of some 1,100 ex-seafarers which will increase to a shortfall of 1,600 by 2021. There is no desire, and no obvious financial advantage, to reducing this number in the short term. For those sectors of the industry indigenous to the UK, a decline in UK seafarers would result in an increased reliance on non-UK personnel with possible implications on immigration policy in the longer term.
- The requirement for UK trained ratings both at sea and ashore is relatively low albeit with a net deficit of circa 800 forecast nationally by 2021. Ratings currently represent only a small proportion of the overall SMarT budget at around 4%, however there is an immediate need to develop the next generation of UK ratings for the short-sea, coastal and offshore (including renewables) sectors.
- For sea-going deck and engineer officers even with an assumed continuance of SMarT at current levels, or some alternative mechanism generating circa 850 officers per annum, a shortfall of at least 3,500 is

building nationally, with UK proportions at sea falling by twenty percentage points. A target of around 1,000 UK cadets per annum would help to address this, but would require additional funding. For ratings targets are forecast to be met within existing planned assumptions.

- Seafarers contribute significantly to the wider UK economy. SMarT has had a positive impact, over and above tonnage tax, in increasing the numbers of UK seafarers. It has not been possible from the evidence available to correlate directly increases in cadets with SMarT income, however the consultants have identified that in 2010/11 there was a direct effect of circa 200. In addition SMarT forms an integral part of the UK tonnage tax regime with its unique training requirement.
- A number of options (which are consistent with already declared Government intent, or are practised elsewhere), or a combination of them, might provide other cost-effective means of meeting the requirement , namely:
 - a) Students bearing a part, or the full cost, of their training;
 - b) The introduction of a levy and grant system similar to that used in the construction industry;
 - c) An apprenticeship model.
- To ensure the supply of trained seafarers for the future, Government intervention is still required. Although it is difficult to make a precise judgement on the effectiveness and efficiency of the existing funding arrangements, both the Panel and the consultants' view is that SMarT has proved successful in terms of wider economic benefit to the community generating return rates at £14,500 per annum in excess (i.e. 33%) of a UK worker displaying average productivity and represents value for money.
- There is an urgent need to provide some clarity to the sector, and to associated training colleges, on the short term intentions of the DfT. In the absence of any costed alternatives to SMarT, the Panel's view is that this would best be met by continuing SMarT in its current form unless and until there is a demonstrable viable option.
- The current training models, with their pattern of a balance of integrated sea and shore based training work well, and there is no evidence to suggest a radical departure is needed from the style, content or delivery of training on offer. There are some issues of detail, particularly around audit and accounting that need to be addressed.

Recommendations

25. Against the background of the current austerity measures, but in recognition of the consultant's advice on the maritime sector's wider economic benefit and contribution to the Government's growth agenda, the independent review panel recommends that the Minister:

- i. Continues SMarT in its current form and at its current level unless and until there is a demonstrable viable alternative.
- ii. Considers whether he wishes to test the impact of a change in SMarT funding levels.

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- iii. Considers whether he wishes to commission further study work into one or more of the following options, and if so in what timescale:
 - a) Students bearing a part, or the full cost, of their training;
 - b) The introduction of a levy and grant system similar to that used in the construction industry;
 - c) An apprenticeship model.
- iv. Introduces for the future a more robust and focused audit and accounting regime for the SMarT training budget.
- v. Examines whether the SMarT budget currently administered through DfT might not be better administered by BIS.

The Independent Panel

9 December 2011

Mike Potter (Chair)	Wirral Metropolitan College
Doug Barrow	Maritime London
Stephen Bracewell	Harwich Haven Authority
Mark Dickinson	Nautilus
Nigel Palmer	Maritime Skills Alliance
Michael Parker	Chamber of Shipping