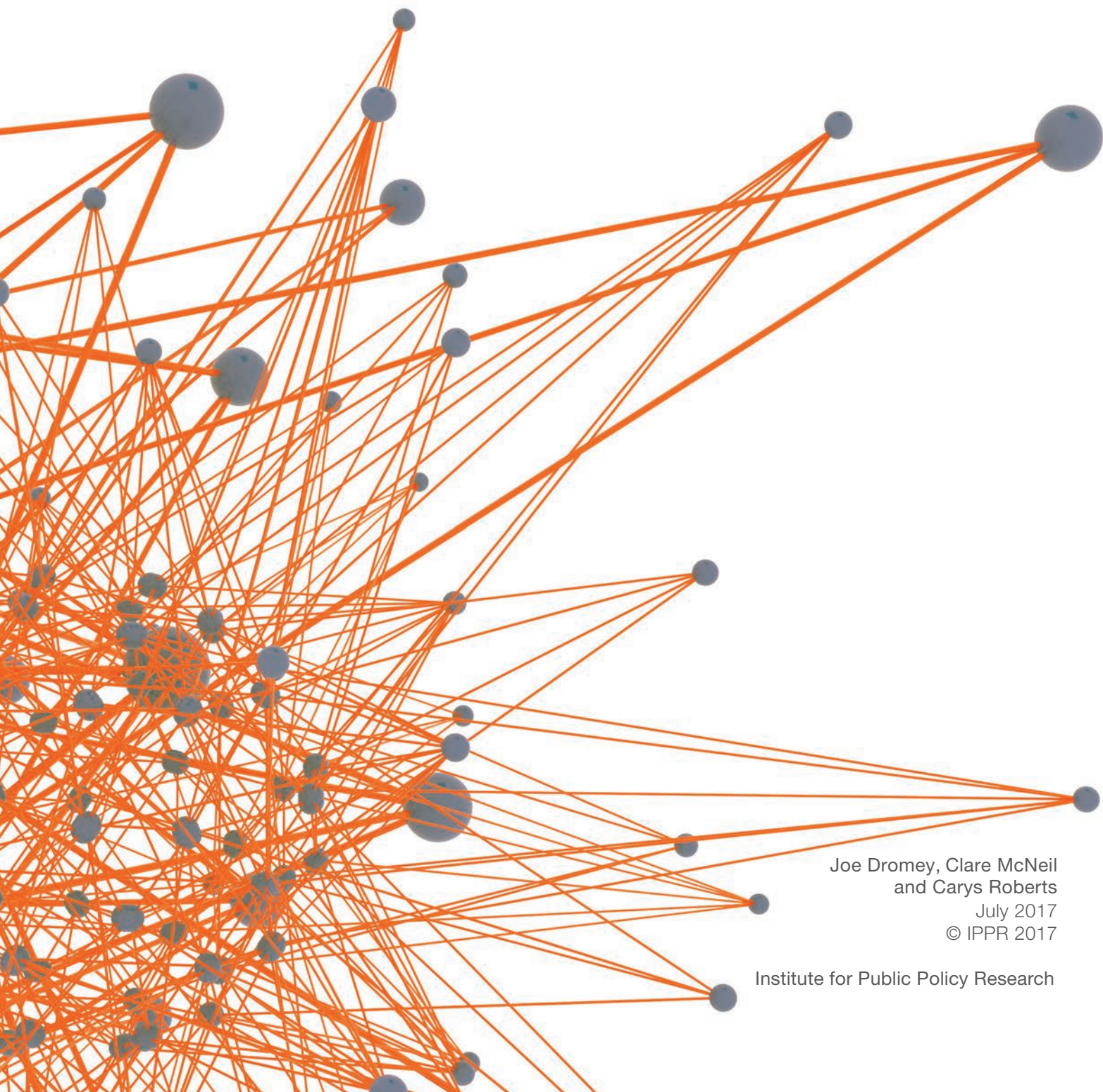


A SKILLS 2030 REPORT

# ANOTHER LOST DECADE?

## BUILDING A SKILLS SYSTEM FOR THE ECONOMY OF THE 2030s



Joe Dromey, Clare McNeil  
and Carys Roberts  
July 2017  
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The JPMorgan Chase New Skills at Work programme aims to identify strategies and support solutions that help improve labour market infrastructure and develop the skilled workforce globally. The initiative brings together leading policymakers, academics, business leaders, educators, training providers and nonprofits with the goal of connecting labour market policy with practice, supply with demand and employers with the workforce – all to strengthen the global economy.

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# CONTENTS

Summary .....	3
<b>1. Introduction .....</b>	<b>7</b>
1.1 A failing system.....	7
1.2 Flawed assumptions .....	8
1.3 Building an economy that works for everyone.....	9
1.4 Vision 2030: an adult skills system that works for everyone.....	11
<b>2. The labour market in 2030.....</b>	<b>13</b>
2.1 Stalled productivity growth .....	13
2.2 Low pay and in-work poverty.....	14
2.3 The ‘progression gap’ .....	16
2.4 Long-term economic shifts: Brexit .....	17
2.5 Long-term economic shifts: demographic change .....	18
2.6 Long-term economic shifts: accelerating pace of technological change .....	18
2.7 Adaptability to change .....	20
2.8 The regional impact of automation.....	22
2.9 Case study: the transformation of the UK’s retail sector.....	23
2.10 Conclusion .....	27
<b>3. Funding the system: Improving investment in, and utilisation of, skills among employers.....</b>	<b>28</b>
3.1 Boosting employer investment: broadening the apprenticeship levy .....	29
3.2 Introducing a ‘skills and productivity levy’ .....	31
3.3 Encouraging individual investment.....	33
3.4 Personal budgets .....	34
3.5 Boosting skills demand and utilisation .....	42
3.6 Supporting progression for the low paid and low skilled .....	46
<b>4. Governing the system: Increasing the availability of high-quality specialist vocational provision .....</b>	<b>49</b>
4.1 The lack of high-quality vocational provision.....	49
4.2 Why the system is failing.....	50
4.3 Supporting strong sectoral institutions.....	54
4.4 Integrating sectoral and local institutions.....	62
4.5 A career pathway approach to adult education .....	64
4.6 Informing choices: improving information, advice and guidance and labour market information.....	68
4.7 The provider market .....	70
<b>5. A skills system that works for all.....</b>	<b>75</b>
5.1 Supporting individuals, communities and industries to adapt to the demands of the global economy .....	75
5.2 Supporting individuals to adapt .....	78
<b>6. Conclusion.....</b>	<b>83</b>
<b>References .....</b>	<b>86</b>

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# SUMMARY

## 60-SECOND SUMMARY

With wages lower than a decade ago, the UK suffers from a growing challenge of low-pay and in-work poverty. With productivity growth having stagnated, we are falling behind our European partners. Our economy will be transformed in the coming years as a result both of Brexit, and also trends such as rapidly advancing technology and our ageing society. We need a skills system that can both help adults, employers and communities to adapt to these changes, and that helps build an economy that works for everyone.

England's adult skills system is based on flawed assumptions and has failed to respond to past industrial change. Successive governments have assumed that 'supply-side' boosts to the skills level of the population alone will help workers succeed in the face of greater competition and labour market instability.

However, the evidence we put forward suggests that in order to have any impact on productivity, pay and progression, improvements in skills levels must be complemented with action to increase employer demand for and utilisation of skills in the workplace.

Building on our first IPPR report in this series (Dromey and McNeil 2017), we set out four priorities for reform: boosting investment in the skills system; improving employer demand for and utilisation of skills to raise productivity; increasing the availability of high-quality specialist vocational provision and supporting industries and communities facing economic decline to adapt to the demands of the global economy.

Our recommendations include:

- Expanding the Apprenticeship Levy into a 'Productivity and Skills Levy' to provide a £1.1 billion regional fund to drive skills devolution.
- Introducing a 'Personal Learning Credit' worth up to £700 a year for low-paid, low-skill workers to help people invest in their future careers
- Supporting both demand for and utilisation of skills as part of a modern industrial strategy, including by establishing strong sectoral institutions to drive a collective commitment to skills and productivity.
- A 'Productivity Commission' should be established to lead a national mission to boost job quality and workplace performance
- Introducing a 'Personal Retraining Allowance' of £2,000 to support low-skilled workers made redundant to return to the labour market and establishing a cross-government framework should identify and monitor industries in transition.

## KEY FINDINGS

The UK's skills system suffers from:

- low levels of demand for, investment in and utilisation of skills among employers
- a lack of high-quality vocational training
- a failure over decades to tackle persistent regional skills imbalances.

These weaknesses are largely the result of assumptions that have underpinned the skills system since the 1990s. Successive governments have mistakenly operated on the basis that raising skill levels among the population alone will create a 'knowledge economy' that will help workers succeed in spite of greater global trade and competition. The evidence, however, is that unless these changes are complemented with action to increase employer demand for and utilisation of skills, improvements in qualifications will have little impact on productivity, pay and progression.

**Given the profound changes our economy will undergo in the years up to 2030 the current situation is no longer sustainable.**

Our economy suffers from underlying weaknesses which stand to worsen without remedial action. Productivity growth has stalled, and the productivity gap with comparable countries is widening. There are five million adults in low pay in the UK, and the UK suffers from a chronic 'progression gap', with just one-in-four adults moving out of low pay over a decade.

Transformative trends such as Brexit, accelerating technological change, and population ageing will require more support for workers to retrain and upskill or risk getting left behind.

Our recommendations bring together government agendas on education and skills, industrial strategy, productivity and growth as part of **a new national mission to improve workplace performance and job quality.**

## POLICY PRIORITIES

We identify four priorities for the skills system as Britain attempts to forge a new role in the world following the outcome of the 2016 EU referendum:

1. **improving investment in the skills system**
2. **improving employer demand for and utilisation of skills to boost productivity**
3. **increasing the availability of high-quality specialist vocational provision**
4. **supporting industries and communities facing economic decline to adapt to the demands of the global economy.**

## RECOMMENDATIONS

**Recommendation 1. Improve investment in the skills system**

- **Introduce a 'Productivity and Skills Levy' to boost investment and increase productivity.**
  - The government's apprenticeship levy should be broadened out into a 'productivity and skills levy'. Set at 0.5 per cent of payroll for employers with 50 or more staff, and 1.0 per cent for large

firms with 250 or more employees, employers should be given greater flexibility, with the ability to redeem levy funds against all high-quality training, not just apprenticeships.

- **Provide a 'Personal Training Credit' to support low-paid and low-skilled individuals to invest in their training and career.**
  - The credit would focus resources on those who need support the most, giving people control over their training and careers, and would help close the participation gap. The credit would be worth up to up to £700 a year for adults with low qualifications who are either in low-paid work or who are unemployed, with the individual required to co-invest where they can to unlock these funds.

### **Recommendation 2. Improve employer demand for and utilisation of skills to boost productivity**

- **Establish a new national mission to boost job quality and workplace performance.**
  - A new statutory duty should be introduced for the DWP to report to Parliament on the quality of work as well as progress towards full employment. The government should move beyond simply reporting on participation to reporting on the quality of work, with measures reported on to include task factors, employment factors, and relational and governance factors. These should be developed by DWP in partnership with stakeholders.
  - By 2020, the government should merge the Productivity Council and the Institute for Apprenticeships to form a broader and more powerful Productivity Commission to support employers to drive up workplace performance in the UK. Once the council has implemented its programme on management skills and leadership its remit should be expanded to incorporate vital issues for raising productivity and wages such as job quality and design, work organisation, HR policies and employee relations.
- **Introduce 'progression agreements'** between commissioners, employers and employees, with public funding being provided in exchange for employers guaranteeing progression for an employee who completes an identified course or qualification.

### **Recommendation 3. Increase the availability of high-quality specialist vocational provision**

- **Build strong sectoral and local institutions to drive skills policy and industrial strategy.**
  - As part of its industrial strategy the government should use sector deals to build new institutions to improve the quality of training, and drive skills utilisation and workplace performance. These institutions would be responsible for identifying and articulating demand in their sector, designing standards, training content and career pathways, overseeing awarding bodies, investing levy underspend and boosting job quality.
- **Introduce greater devolution and reformed local institutions.**
  - Local enterprise partnerships should be reformed and rebranded as local productivity partnerships to bring together local

government, employers, providers and trade unions to govern economic development and the skills system locally.

- **Establish outcome agreements focused on productivity, pay and progression.**
  - Local productivity partnerships should establish outcome agreements as the basis of local commissioning with a focus on labour market outcomes – such as improvements in pay, progression and productivity – not merely qualifications delivered.

#### **Recommendation 4. Support industries and communities facing economic decline to adapt to the demands of the global economy**

As the basis of the government's manifesto pledge to introduce a 'national retraining scheme' to help workers to stay in secure jobs as the economy changes, government should seek to:

- **Introduce a 'Personal Retraining Allowance' of £2,000 for workers who are made redundant and lack an NVQ level 3 to invest in upskilling.**
  - This funding should be made available through the personal training credit, and paid for by reducing the tax free allowance for redundancy payments.
- **Establish a cross-government framework to identify and monitor industries in transition as part of the government's new industrial strategy.**
  - This should be targeted at those industries with both a high number of jobs with the potential to be automated, and a high proportion of workers with lower-level qualifications who are more at risk of slipping into long-term unemployment.
- **Give local areas powers to force certain firms to release workers for a set number of days per month for retraining.**
  - Firms would be compensated through the use of skills and productivity levy funds, or supported to set up job rotation schemes.

Finally, **the government should appoint a minister for productivity and skills.**

- Based jointly across BEIS and DfE, the minister for productivity and skills would be responsible for bringing together government agendas on education and skills, industrial strategy, productivity and growth as part of a new national mission to improve workplace performance and job quality.
  - The minister would be responsible for driving up both the quantity and the quality of training in the labour market, and ensuring skills are utilised effectively to deliver improvements in productivity.



# 1. INTRODUCTION

The UK economy is set to undergo significant change in the coming years. The impact of rapidly advancing technology, an ageing population and exiting the EU will leave our economy looking very different by 2030.

Having an effectively functioning adult skills system will be crucial if we are to manage the impact of these trends, to shape them and to turn them to our advantage. However, there is serious cause for concern that our adult skills system is not fit for purpose today, let alone fit to face the challenges ahead.

## 1.1 A FAILING SYSTEM

In our first IPPR report in this series, we set out **three key failings with the adult skills system** (Dromey and McNeil 2017):

1. low demand for, investment in and utilisation of skills
2. a lack of high-quality vocational provision
3. a failure to tackle regional and social inequalities.

### 1. Low demand for, investment in and utilisation of skills

England suffers from weak employer demand for skills, and low and declining employer investment. Employers in the UK spend half as much on continuing vocational training as the EU average (Eurostat 2010). Employer investment per employee in training declined by 13.6 per cent per employee in real terms between 2007 and 2015 (Dromey and McNeil 2017). Declining employer investment would be concerning at the best of times, but it is all the more concerning given it comes at the same time as public investment is being cut – the adult skills budget was cut by 41 per cent between 2010/11 and 2015/16 (Foster 2017).

In addition to low and declining investment in skills, there is a significant and growing challenge with underutilisation of skills. The UK has the highest levels of self-perceived overqualification in the EU (Cedefop 2015).

Poor skills utilisation helps explain why significant improvements in the level of qualifications among the working-age population over the last decade has not been matched by improvements in key economic outcomes. In the decade since the Leitch review, the number of adults with at least an NVQ level 2 and with at least an NVQ level 4 has increased by 10 per cent and 11 per cent respectively. Yet productivity over that period increased by only 1 per cent and median weekly wages are 4 per cent lower in real terms (Dromey and McNeil 2017). As Leitch argued, if improvements in qualifications are to deliver economic improvements, the qualifications need to be valued by employers, and the skills of the workforce need to be effectively utilised (Leitch 2006).

## **2. A lack of high-quality vocational provision**

There is a lack of high-quality vocational education and training provision, which is holding back adults and our economy.

In the absence of strong and clearly articulated demand for skills from employers, providers have come to rely on the funding and regulatory systems set by central government. As provision has been shaped by government, rather than by employers, it too often fails to meet the needs of either employers or learners, and labour market outcomes tend to be poor. Providers have tended to deliver a large number of qualifications at or below NVQ level 2, with these qualifications offering poor labour market returns (Dromey and McNeil 2017). At the same time, many skilled sectors face persistent skills shortages that are not met by current provision. Efforts to build a more ‘employer-led’ system risk exacerbating these problems.

## **3. A failure to tackle regional and social inequalities**

The adult skills system has failed to address the significant social and regional inequalities that scar our society.

First, the adults who might benefit most from training opportunities are the least likely to participate in learning. Adults who left school early, who have low levels of qualification, who work in low-pay sectors, and come from low socioeconomic classes are less likely to participate in learning (NIACE 2015). Adults with higher levels of qualification and higher pay are more likely to be able to invest in their own skills. Employers too are more likely to invest in training employees who already have higher-level qualifications (LWI 2016). In this sense, the current adult skills system risks exacerbating – rather than addressing – skills inequalities.

Second, the adult skills system has failed to address deeply entrenched regional inequalities that hold back our economy. Its record on supporting adults and communities to adapt to economic change is exceedingly poor. Many regions which were affected by deindustrialisation at the end of the last century still suffer from low pay, low productivity and high levels of inactivity. Low skills equilibria have developed in some areas, with low levels of qualification among the working-age population and low demand for skills from employers (Dromey and McNeil 2017).

Again, the skills system risks accentuating rather than addressing these inequalities. The apprenticeship levy will raise more money and stimulate training more in London and the South East. More employers in these regions will be subject to the levy as a result of a greater concentration of large employers and higher pay. Conversely, the levy will raise less and stimulate training less in the areas that are most in need of investment (ibid).

## **1.2 FLAWED ASSUMPTIONS**

The weaknesses in the adult skills system, and the failure of successive reforms to deliver a system that works, are in large part due to the flawed assumptions on which it is based.

- Government has assumed that a supply-side approach focused on simply investing in skills will help to create a ‘knowledge economy’, and deliver shared economic benefits in terms of productivity, pay and growth. The assumption was that globalisation and technological

change would boost demand for skills and increase rewards to the high skilled, with a corresponding decline in demand for workers with lower levels of skills (Lawton 2009). Until the recent cuts, government had invested heavily in adult skills to deliver this aim. Yet, over the last decade, while qualification levels in the workforce have improved very significantly, productivity has stalled, and pay has declined in real terms. The increase in the demand for skills has not kept pace with the increase in supply, and poor skills utilisation is a growing challenge.

- Government has generally assumed that with the right incentives in place, employers will invest in the skills of their workforce, and that the business, the employee and the wider economy will benefit as a result. Yet, employer investment in skills per employee has fallen in real terms, and it remains far below the level of other advanced economies. Much of the training we have seen is narrow role- and firm-specific, rather than wider vocational training. The apprenticeship levy is a recognition that more robust action is needed to stimulate employer investment.
- Government has assumed that a market-based approach – in which employers and employees choose from a variety of competing providers – will drive up standards of training and outcomes. The role of providers has been seen as identifying employer demand and ‘matching it’ with courses that meet both their needs and those of learners. As a result, much of the training provided has been poor quality and has delivered poor labour market outcomes.
- Policymakers have assumed that individual adults will act as consumers, making rational decisions on training that will boost their skills and improve their career prospects. However, the information required to support the operation of an efficient market is lacking. Individuals face a bewildering variety of options, and they often lack access both to high-quality information, advice and guidance (informed by accurate labour market information) and to evidence of course outcomes and provider quality. Decisions on how and indeed whether to participate are socially constrained, with adults who have struggled at school being far less likely to participate in later life. In many areas, low-skills equilibria have developed, with low levels of qualifications among the workforce matched by low levels of demand for skills among employers (Green 2012).
- Government has assumed that by building an employer-led system, training will be aligned to their needs, and will deliver real economic benefits for them, for learners and for the economy. Yet much of the training provided is firm-specific and narrowly job-focused, rather than focusing on a wider vocation. The lack of strong sectoral institutions has prevented employers from identifying and clearly articulating skills needs.

Until these fundamentally flawed assumptions are addressed it is unlikely the government will be able to achieve its objectives on delivering higher productivity and growth as the UK forges its new role in the world.

### **1.3 BUILDING AN ECONOMY THAT WORKS FOR EVERYONE**

The government has set out its ambition to build an economy that works for everyone, and to make Britain a ‘Great Meritocracy’ with high levels

of social mobility (DfE 2016a). Yet our adult skills system serves to compound, rather than alleviate, educational inequalities.

Currently, those who could most benefit from learning opportunities are least likely to participate. Adults with lower levels of qualifications, in lower-paying occupations, in lower socioeconomic classes, and who left school at a younger age are all less likely to be participating in learning than the average adult (NIACE 2015). Employers, by contrast, are more likely to invest in training for staff with higher levels of qualification (LWI 2016).

We also know that too many people in our economy are not benefiting from economic growth. While employment has recovered strongly in recent years, median weekly wages in 2016 were still 6 per cent lower in real terms than they were at their peak in 2008 (ONS 2016a).

The referendum vote to leave the EU demonstrated the extent to which many people felt that they were not sharing in the growth of the economy, and that they had been left behind by economic change. Qualification level was a strong predictor of voting behaviour; those with low levels of qualification were far more likely to vote to leave the EU (Becker et al 2016).

A well-functioning adult skills system is vital if we are to address educational and economic inequalities, and to build an economy that works for everyone.

Adult skills has been relatively low down the list of political priorities in recent years. There are two factors that explain the lack of attention on adult skills. First, our skills system has traditionally focused attention and resources on young people, rather than on adults. The adult skills system has been described as the 'poorer cousin' to educating under-18s and university students (Wolf 2015). Second, our skills system has long been focused on academic skills at the expense of vocational skills.

The low priority for this policy area is demonstrated in the low and falling levels of public investment in adult skills, compared to education for younger people. The adult skills budget has been subject to severe cuts in recent years, and it is to be held flat in cash terms for the duration of this parliament. England's adult skills budget will have fallen by 45 per cent in real terms between 2010/11 and 2020/21 (Dromey and McNeil 2017).

In the past few years, some steps have been taken to address the lack of parity between vocational and academic learning. The government has recently introduced the apprenticeship levy to boost employer investment in training. The levy, which came into force in April, applies to all employers with a payroll of £3 million or more. A sum equivalent to 0.5 per cent of payroll above the £3 million threshold will be deducted, and placed in an electronic account, with a top-up from the government equivalent to 10 per cent. Employers will be able to redeem this money against the cost of training for apprentices (DfE 2016b).

The government has also embarked on significant reforms to the wider vocational system. Following the recommendations of the Sainsbury Review (Sainsbury 2016), the government has committed to introducing a common framework of 15 routes across all technical education,

encompassing both college-based and work-based (apprenticeship) provision. These new technical qualifications or ‘T-levels’ will be designed with the input of employers and approved by the new Institute for Apprenticeships. Both routes will be accessible both to 16–18-year-olds and to adults (BIS/DfE 2016).

However, there is still significant absence of a convincing policy agenda for the working-age population compared to those aged 16–18 or who are not suitable for apprenticeship training.

The government is developing an industrial strategy white paper that aims to boost productivity, pay and growth across all regions. The preceding consultation green paper acknowledges that rapidly advancing technological and demographic change will make lifelong learning increasingly important, and it highlights the failure of the current system to support those who could most benefit from learning opportunities. The green paper sets out plans to test new approaches to engage more adults in learning (BEIS 2017). The spring budget announced a small fund of £40 million by 2018/19 to support this, by experimenting with different approaches to helping people retrain and upskill throughout their working lives (HMT 2017).

With two-thirds of the workforce of 2030 having already left full-time education, the adult skills system will be crucial in helping us to compete in a global economy. However, as currently configured it is incapable of delivering the government’s objectives of increasing living standards, productivity and growth across the country.

In this report, we set out an approach to adult skills that would better meet the needs of learners, employers and the economy in the future. We argue for a much more ambitious approach that supports employers to innovate, and to develop and to utilise the skills of their employees in order to produce high-quality products and services. Achieving this requires the government to take a more active and supportive role than it has for a long time. It also requires the government to control less, and to devolve greater power and responsibility to key industrial and regional actors. It is a vision for promoting a more ambitious economy, one that can compete in a global economy, and one that is rooted in the talent and creativity of the British people.

Skills policy is devolved and this report focuses on the English skills system. It follows *Scotland Skills 2030* which examined the same issues from the distinct perspective of Scotland (Thomas and Gunson 2017).

#### **1.4 VISION 2030: AN ADULT SKILLS SYSTEM THAT WORKS FOR EVERYONE**

A shift to a more innovative, higher-skilled economy that works for everyone and can help us compete in a global economy will require far more focus on how the skills of the adult working population are being developed and utilised in the workplace.

A more ambitious adult skills policy should be informed by the following three goals:

1. improving investment in, demand for and utilisation of skills among employers
2. increasing the availability of high-quality specialist vocational provision

3. supporting industries and communities facing economic decline to adapt to the demands of the global economy.

The adult skills system of 2030 should also be based on the following principles:

- government should encourage employers to **pursue the ‘high road’ to business success**, based on a highly-skilled workforce
- government should focus on **boosting not just the supply of skills, but also on demand for skills** in the labour market, with skills supply being integrated with economic development and business support
- the adult skills system should **be governed by strong sectoral institutions** based on social partnership models, not controlled by central government
- the adult skills system should be **more decentralised and supported by local institutions** that represent the need of local employers and learners
- the adult skills system should **be based on a collective approach to governance and funding**
  - as learners, employers and the state all benefit from training, they should all contribute
  - public funding should be focused on those who could most benefit from learning opportunities, but might need more support and encouragement to do so
- the adult skills system should **put people in control** of their training and their careers, giving them the information, the incentives and the resources to progress at work
- the adult skills system should be **based on accurate information** about employer skills needs, and choices on provision should be shaped by the outcomes of that provision.

In this report, we examine how government and other key stakeholders should go about delivering on these goals. However, we start by examining the key trends that will shape our labour market up to 2030, with a particular focus on the role of accelerating technological change, in order to ground our analysis in an understanding of changing skills needs and employment trends.

## 2. THE LABOUR MARKET IN 2030

The adult skills system has serious weaknesses, borne out of the flawed assumptions that have driven reforms of the system over the last 25 years. This situation is no longer sustainable given the scale and nature of trends that will affect the nature of work and skills between now and 2030 and which our skills system will need to confront.

In this chapter we examine these trends, starting with existing underlying weaknesses in our economy which stand to worsen without remedial action, and move onto transformative longer-term trends, with a particular focus on the potential for automation to impact on jobs and skills in the future.

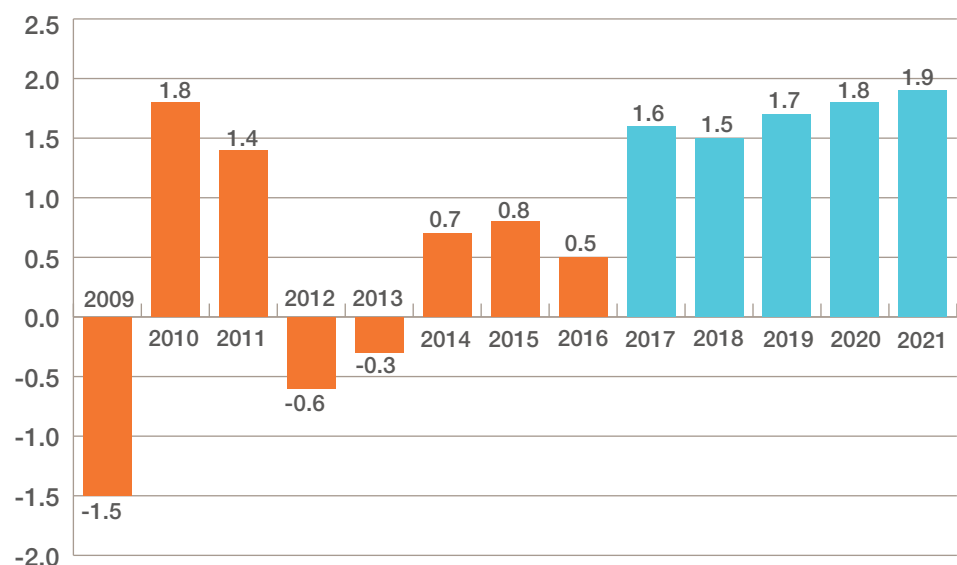
### 2.1 STALLED PRODUCTIVITY GROWTH

The UK is facing a growing challenge with stalled productivity growth. Productivity growth has been exceedingly slow since the financial crisis. Output per hour worked today is just 0.8 per cent higher than it was in 2008 (ONS 2017a).

**FIGURE 2.1**

OBR predicts a return to relatively strong and sustained productivity growth

*UK productivity growth, 2009–2020 (%)*



Source: Office for Budget Responsibility, 'Historical official forecast database' (OBR 2017)

The UK's very poor performance on productivity is in large part related to Britain's long tail of low productivity firms at the bottom end of the labour market. Workers in low-wage sectors in the UK tend to be less qualified than their peers in Europe and firms in these sectors in the UK invest less than comparable firms in Europe. If productivity in low-wage firms was raised to the EU average for those sectors, the UK could close a third of the productivity gap with Belgium, France, Germany and the Netherlands (Thompson et al 2016).

Despite the long stall in productivity, the Office for Budget Responsibility (OBR) forecasts strong and sustained productivity growth in the coming years, averaging 1.7 per cent per annum. However, it is worth noting that this would represent a very significant improvement on productivity, which has grown by an average of just 0.2 per cent in the last five years (OBR 2017), and that OBR productivity forecasts have been consistently and significantly overoptimistic in recent years (ibid).

**Improving productivity in the UK will be essential to boosting economic growth.** The UK employment rate stands at 74.8 per cent – the highest since records began in 1971 – and it is projected to remain high (ONS 2017b, OBR 2017). This means there is relatively little scope to boost growth through increasing the employment rate, so increasing productivity will be crucial to delivering growth.

Boosting productivity is also vital to delivering sustained improvements in living standards. As we set out in section 2.2, the UK has suffered from a prolonged squeeze on wages, largely as a result of stalled productivity. Pulling out of this stall, and delivering strong and sustained improvements in productivity, will be essential to delivering increases in real wages.

**The adult skills system will play a crucial role in boosting productivity.** The government's Post-16 Skills Plan identifies the importance of improving skills to address the UK's poor productivity performance (BIS/DfE 2016). The Labour Party manifesto highlighted the importance of lifelong training to delivering productivity and growth across the whole economy (Labour Party 2017). Yet, boosting the level of qualifications among the population alone is not enough. We need to ensure that the skills being delivered are valued by employers, and we also need to support employer demand for and utilisation of skills in the workplace.

## **2.2 LOW PAY AND IN-WORK POVERTY**

While there has been a strong jobs recovery following the recession, wage recovery has been far weaker. Median pay remains £33 lower in real terms than eight years ago (ONS 2017a). The last two years have seen modest real wage increases, largely as a result of historically low inflation. However, real wages again fell by 0.2 per cent in the first quarter of 2017 following a rise in inflation (ONS 2017b).

Wage growth is expected to remain far below the pre-crash trend in the coming years. Median real incomes are projected to be just 3.8 per cent higher in five years' time (IFS 2017).

Partly as a result of this meagre wage growth, the UK faces a growing challenge with in-work poverty. In 2014/15 7.4 million people were living

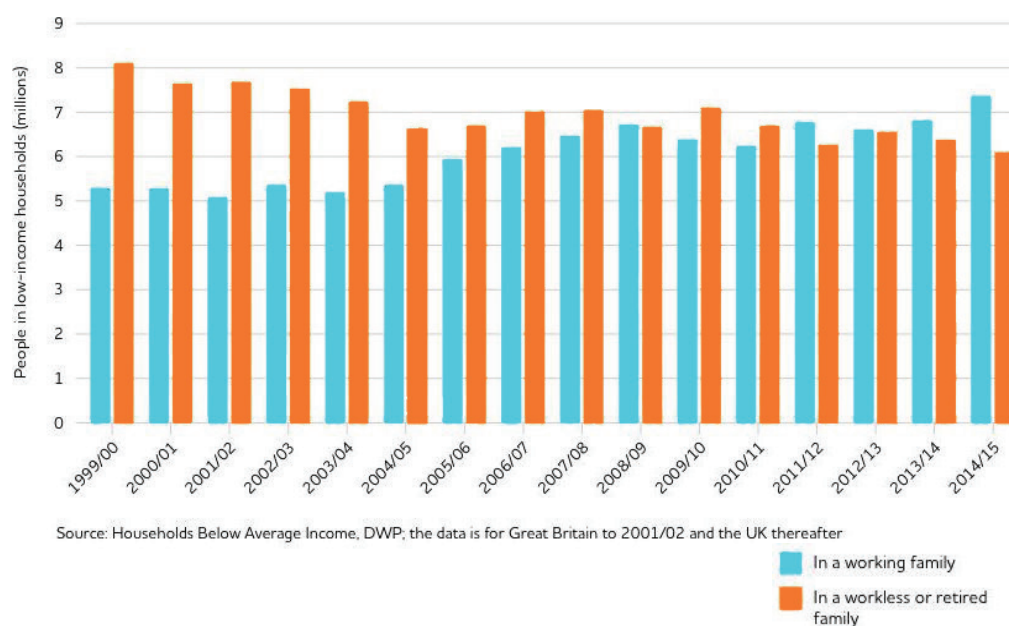


in poverty after housing costs despite being in a working household, up from 5.4 million in 2004/5 (JRF 2016).

**FIGURE 2.2**

**Most people living in poverty are now in a working family**

*Number of people in poverty living in working families compared to workless or retired families, 2000–2015 (millions)*



Source: Joseph Rowntree Foundation, *Monitoring poverty and social inclusion - 2016* (JRF 2016)

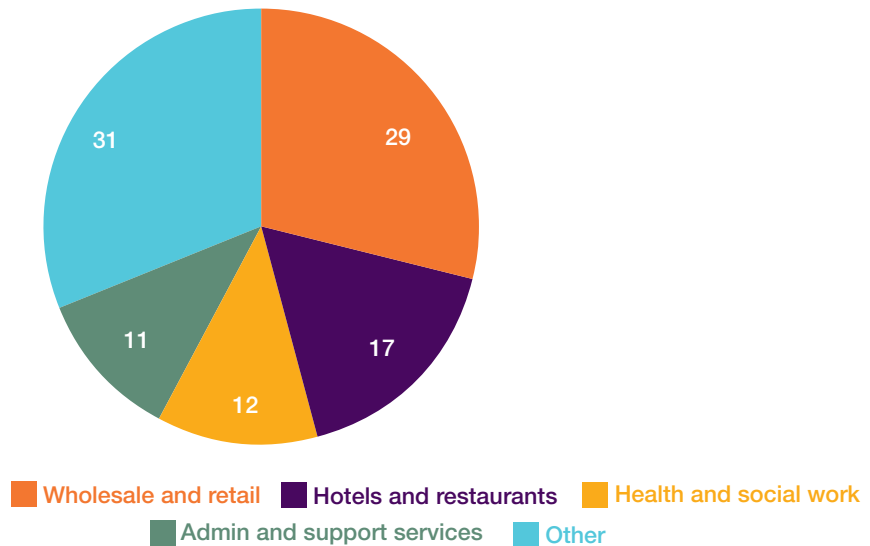
As a result of both anaemic real wage growth and cuts to in-work benefits, relative poverty is expected to increase in the coming years. The proportion of people in relative low income after housing costs is expected to rise from 21.3 per cent in 2014/15 to 23.6 per cent in 2021/22, driven largely by an increase among working-age households with children (IFS 2017).

There is a close relationship between pay and skills. Workers with no or low qualifications are much more vulnerable to low pay. A worker with a degree earns on average 61 per cent more than a worker with A-levels as their highest qualifications, 85 per cent higher than a worker with GCSEs, and 132 per cent higher than a worker without any qualifications.

In addition to the link between low pay and skills, low pay in the UK is highly concentrated in certain sectors. Three in five of all workers on low pay (below two-thirds of median wage) work in just four industries: wholesale and retail, hotels and restaurants, health and social work, and administration and support services (see figure 2.3). Yet, these industries account for only two in five workers. If we are to tackle low pay in the UK, therefore, we need to take a sectoral approach, and to boost both the demand for and the utilisation of skills in low-skill, low-productivity sectors.

**FIGURE 2.3**

Three in five workers in low pay work in just four industries  
*Sectoral make-up of low pay, April 2015*



Source: IPPR calculations based on D'Arcy and Clark, *Low Pay Britain – 2016* (D'Arcy and Clark 2016)

The government introduced the national living wage (NLW) in 2016, a higher national minimum wage for employees aged 25 and over. This appears to have had an immediate and positive impact; average wages for the fifth percentile grew by 6.2 per cent between 2015 and 2016 (ONS 2016a). The government has committed to increasing the NLW to 60 per cent of median earnings by 2020, and then in line with median earnings thereafter (Conservative Party 2017). In contrast, the Labour Party has called for the minimum wage for all workers over 18 to be raised to the level of the 'living wage',<sup>1</sup> which is expected to reach at least £10 an hour by 2020 (Labour Party 2017).

While a higher wage floor for those aged 25 and over will help tackle extreme low pay, more will need to be done to boost pay for those on low and middle incomes. Faced with a rising wage floor, employers will also need to be supported to boost productivity, so that the increases in the national living wage do not cost jobs.

### **2.3 THE 'PROGRESSION GAP'**

In addition to high levels of in-work poverty, the UK suffers from poor progression from low pay.

Of those who were low-paid in 2002, three in four (73 per cent) had not managed to escape low pay a decade later. Among these, two in three had risen above low pay at some point, but found themselves back in or at risk of low pay by 2012, and one in three had been in low pay every year they had been employed throughout the decade (Hurrell 2013). Those with no

<sup>1</sup> As advocated by the Living Wage Foundation.

qualifications were significantly more likely to be stuck in low pay throughout the period. This data demonstrates that for many people – particularly those with low qualifications – low-paid work is not providing a stepping stone to a higher-paid job, and instead people are becoming trapped in low pay.

**One of the core purposes of the adult skills system should be to support adults who are in low-skilled or low-paid work to progress in the labour market.** Yet in recent years, entitlements to funded training for adults who are in work have been reduced. Those in employment and aged 24 and over are entitled only to co-funding for level 2 qualifications, and loan-funding for level 3 qualifications (SFA 2016). Advanced Learner Loans are available to support adults aged 24 and over to study for a level 3 qualification or higher. These changes seem to be having an impact on participation; in the year Advanced Learner Loans were introduced, participation among those aged 24 and over in affected courses dropped by 31 per cent (Adams et al 2016).

As part of the introduction of universal credit (UC), the Department for Work and Pensions (DWP) plans to introduce conditionality for in-work claimants, with employment support to help them increase their earnings. Claimants who are in-work, on UC, and earning less than the equivalent of 35 hours on national living wage will be required to take mandatory actions to increase their earnings, and will have access to a new in-work support service (Work and Pensions Committee 2016). If DWP proceed with in-work conditionality and in-work support, they will need to ensure that those affected are able to access the support that they need to overcome barriers to higher-paid employment, including support to retrain.

Some have argued that progression will become increasingly difficult in the coming years as a result of the decline of mid-skill jobs. According to this argument, ongoing advances in technology and globalisation are resulting in an ‘hour-glass economy’, with the number of mid-skill jobs falling, and the number of high- and low-skilled jobs growing. In this context, progression from lower-skilled work upwards could be more difficult (UKCES 2014).

**If we are to boost productivity and pay at the bottom end of the labour market, we need an adult skills system that encourages employers to invest in skills and supports individuals to progress.**

As well as the existing underlying economic weaknesses outlined above, the UK faces a number of significant longer-term economic shifts that will shape the world of work for years to come and could reinforce existing inequalities if they are not adequately prepared for.

## **2.4 LONG-TERM ECONOMIC SHIFTS: BREXIT**

Following the referendum on the UK’s membership of the European Union, the government has stated its intention to withdraw the UK from both the EU and the single market. This will have profound consequences for the economy and for our adult skills system.

First, depending on the outcome of negotiations, there may potentially be a significant decline in exports from the UK to the EU, which will be

difficult to offset by increasing exports to other countries. This may affect demand in the economy.

Second, the government has reiterated its intention to end freedom of movement with the EU, and to reduce net migration by nearly two-thirds to the ‘tens of thousands’ (Conservative Party 2017). EU workers currently make up 7 per cent of the UK workforce, but this is far higher in certain sectors and in certain areas, such as London (Morris 2017).

While existing EU nationals are likely to be able to remain, any additional restrictions on immigration post-Brexit may negatively impact certain sectors and aggravate skills shortages. This will require a far greater focus on investment in skills from employers and government.

## **2.5 LONG-TERM ECONOMIC SHIFTS: DEMOGRAPHIC CHANGE**

Demographic change is likely to lead to longer working lives. There are already over 1.2 million people aged 65 and over in work in the UK and this number is likely to increase significantly in the future. The Government Actuaries Department has suggested that people under the age of 30 might have to wait until age 70 to qualify for the state pension (Government Actuaries’ Department 2017).

Longer working lives will make opportunities to retrain and update skills increasingly important. The Altman review argued for a greater focus on ongoing workplace training irrespective of age in order to support adults to remain in the labour market (Altman 2015).

The ageing population will also have consequences for the structure of the economy. The population aged 65 or over will increase from 11.6 million today to 15.4 million in 2030, a rise of 33 per cent. Over the same period the working-age population (those aged 16–64) is projected to increase by only 3 per cent (Lawrence 2016). This will lead to a significant increase in demand in sectors such as health and social care.

## **2.6 LONG-TERM ECONOMIC SHIFTS: ACCELERATING PACE OF TECHNOLOGICAL CHANGE**

The world of work will be transformed as we enter what some have called the ‘fourth industrial revolution’. Rapid advances in artificial intelligence, machine learning, robotics and the ‘internet of things’ have the potential both to create millions of jobs in entirely new industries, and to eliminate millions of jobs by disrupting existing industries.

Estimates of the impact of automation on the labour market vary. Groundbreaking work by Frey and Osborne looked at the susceptibility of jobs to automation. They found that 47 per cent of jobs in the US had a high potential to be automated, and that these jobs ‘could be automated relatively soon, perhaps over the next decade or two’ (Frey and Osborne 2013). The same authors have estimated that in the UK, 35 per cent of jobs have a high potential to be automated over the same period (Frey and Osborne 2014).

It is important to note that this analysis focuses only on the potential for automation, and that many other factors may be at play, such as wage levels, investment and regulation. The impact of automation on the labour

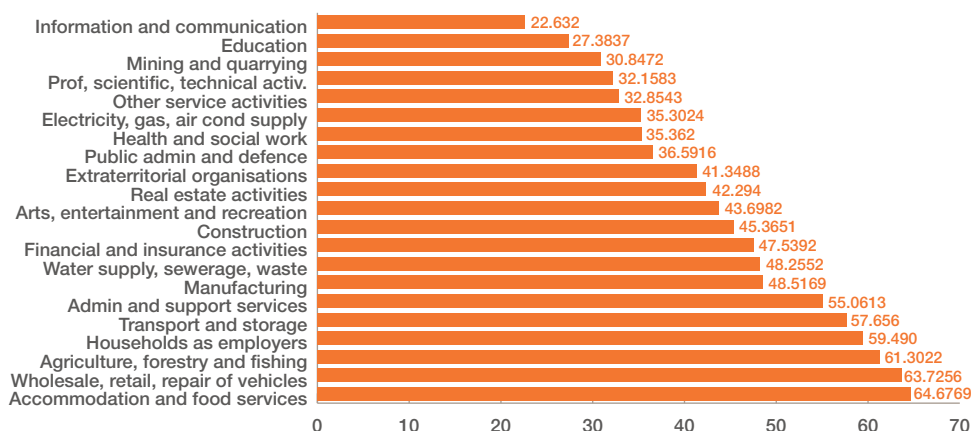
market is disputed and estimates of the likely impact vary significantly. The Bank of England, for example, has warned that 15 million jobs in the UK are at risk of automation. Others are more positive: far fewer roles will be eliminated, they argue, and, while some tasks will be automated, advances in technology are likely to create more jobs than they destroy.

A broad range of sectors and occupations are likely to be affected by automation. High-skill and high-wage jobs are the least likely to be automated (Frey and Osborne 2013). In some sectors, comparatively few jobs are at risk of automation. As figure 2.4 suggests, 23 per cent of jobs in information and communication technology and 27 per cent of jobs in education are at a high risk of automation. However, more than half of jobs are at high risk of automation in four industries; admin and support services (55.1 per cent), agriculture, forestry and fishing (61 per cent), wholesale, retail and repair of vehicles (64 per cent), and accommodation and food services (65 per cent).

**FIGURE 2.4**

**There are four UK industries where more than half of jobs could be substituted with technology**

*Proportion of jobs at high risk of automation by industry in the UK*



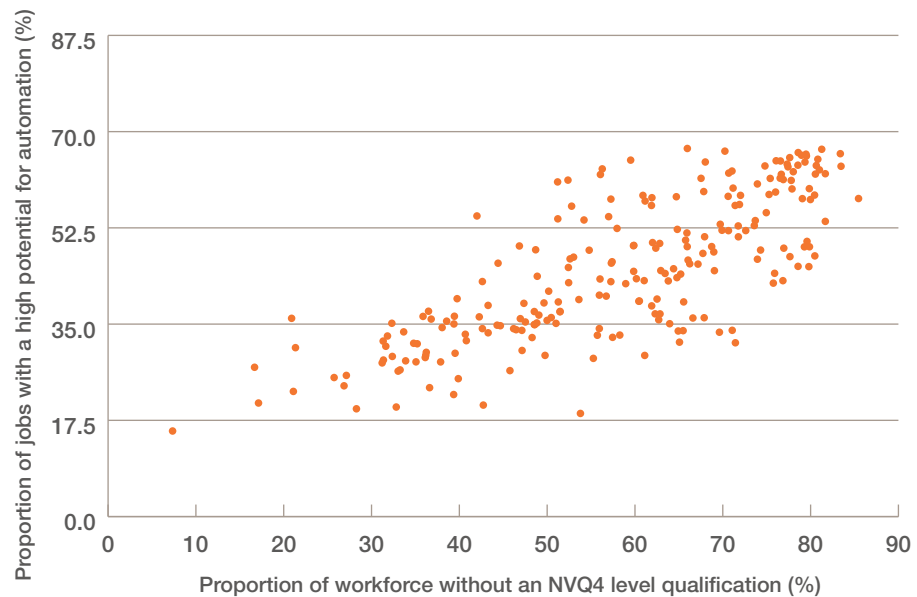
Source: IPPR analysis of Frey and Osborne, *The Future of Employment: How susceptible are jobs to computerisation?* (Frey and Osborne 2013)

Workers with lower levels of skills are more at risk of automation. Adults with lower-level skills are more likely to be working in industries which are at high risk of job displacement from automation. Figure 6.5 looks at industries by region, plotting the proportion of jobs that are vulnerable to automation against the proportion of workers in those industries without degree-level qualifications. It shows that there is a very strong relationship: regional industries with a high vulnerability to automation tend to have more workers with lower-level skills. For example, of the 71,000 jobs in accommodation and food services in the East Midlands, 66 per cent have a high potential for automation, and 83 per cent of the workforce do not have a degree-level qualification.

**FIGURE 6.5**

**Regional industries with more low-skilled workers are more likely to be vulnerable to automation**

*Percentage of workers with no qualifications or level 1 qualifications by percentage of jobs vulnerable to automation by industry by region*



Source: IPPR analysis of Frey and Osborne, *The Future of Employment: How susceptible are jobs to computerisation?* (Frey and Osborne 2013) and IPPR analysis of Office for National Statistics' Labour Force Survey (2015–16)

## 2.7 ADAPTABILITY TO CHANGE

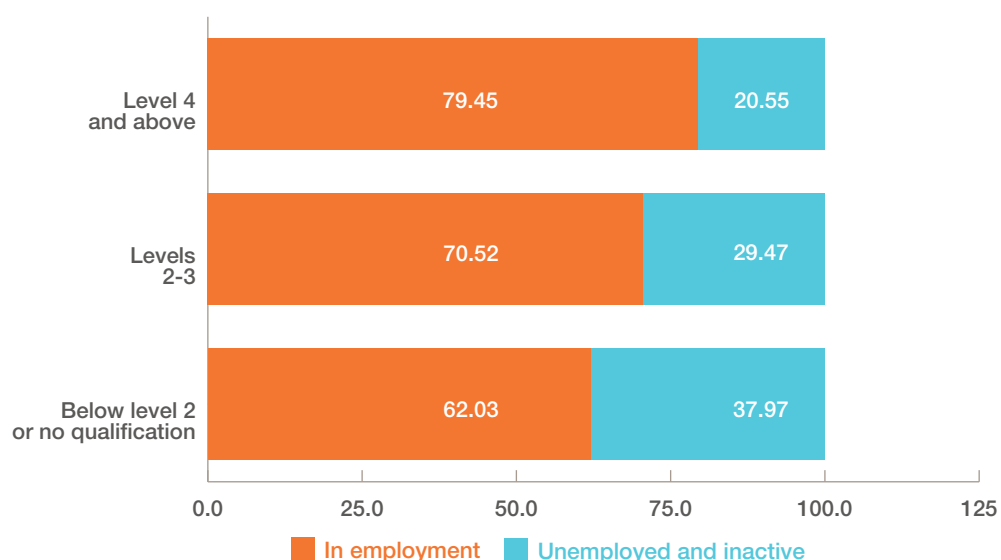
In order to understand which workers will be most adversely affected by the potential for automation we assessed 'adaptability' to the impact of automation based on workers' skills profiles. Adults with lower levels of skills are more vulnerable to being made redundant (Quintini and Venn 2013) and less likely to find work again in the event of job loss. Two in five (38 per cent) adults without GCSE-level qualifications are still out of work a year after being made redundant, compared to just one in five (21 per cent) with a degree-level qualification.

The impact of automation is likely to be far higher in industries with a greater proportion of low-skilled workers, who may be more likely to struggle to find another job. Some industries have both a high number of jobs with the potential to be automated, and a high proportion of workers with lower-level qualifications. In retail and wholesale for example, there are over two and a half million jobs at high risk of automation, and three in four workers who are likely to struggle to adapt to change. These industries could see a high level of job displacement in the coming years, with workers affected facing an increased chance of falling into long-term unemployment.

**FIGURE 6.6**

**Adults without a level 2 qualification are twice as likely to be unemployed or inactive a year after redundancy than an adult with a level 4 qualification**

*Percentage of those who are made redundant who are in employment a year after the quarter in which they were made redundant (October 2010 to September 2015)*



Source: Office for National Statistics' Labour Force Survey, pooled waves from October–December 2010 to July–September 2015

**TABLE 2.1**

**Industries with high numbers of jobs at risk from automation and low levels of qualification among the workforce**

Industry	Proportion of jobs at high risk of automation (%)	Number of jobs at high risk of automation	Proportion of workers without NVQ level 4 qualification (%)
Wholesale, retail, repair of vehicles	63.7	2,638,164	76.3
Transport and storage	57.7	912,402	78.8
Accommodation and food services	64.7	1,092,827	78.0
Manufacturing	48.5	1,452,887	67.6

Source: IPPR analysis of Office for National Statistics' Labour Force Survey and Frey and Osborne, *The Future of Employment: How susceptible are jobs to computerisation?* (Frey and Osborne 2013)

In other industries, there are far fewer jobs with the potential to be automated, and a far higher proportion of workers who will be more likely to adapt to change. In education for example, just one in four jobs (27.4 per cent) is at risk of automation, and two in three employees (67.7 per cent) have degree-level qualifications. In

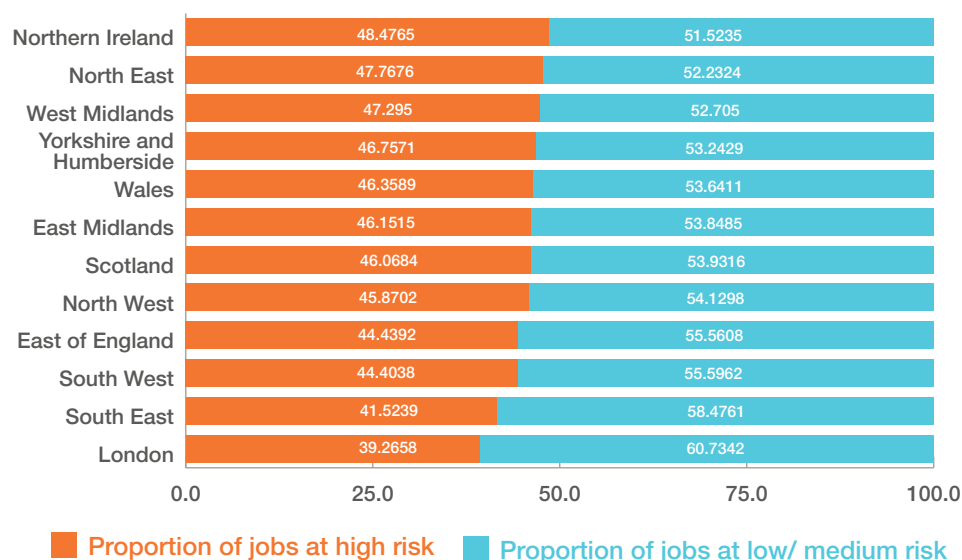
information and communications, less than one in four (22.6 per cent) jobs is at risk of automation, and two thirds (66.8 per cent) of workers have degree-level qualifications.

## 2.8 THE REGIONAL IMPACT OF AUTOMATION

There is evidence to suggest that the impact of automation will be geographically concentrated and may accentuate existing regional inequalities. Our analysis shows that jobs in London and the South East are more resilient to automation than those in the rest of the country (see figure 6.7). Whereas 39 per cent of jobs have a high potential to be automated in London, 47 per cent are at risk in Yorkshire and the Humber and the West Midlands, and 48 per cent are at high risk in the North East and Northern Ireland. These areas already have lower levels of employment than the national average, so higher levels of job losses as a result of automation may serve to undermine demand, increase unemployment, and to exacerbate existing regional inequalities.

**FIGURE 6.7**

**Jobs in London and the South East are more resilient to automation**  
*Proportion of jobs at high and medium/low risk of automation by region*



Source: IPPR analysis of Office for National Statistics' *Labour Force Survey* and Frey and Osborne, *The Future of Employment: How susceptible are jobs to computerisation?* (Frey and Osborne 2013)

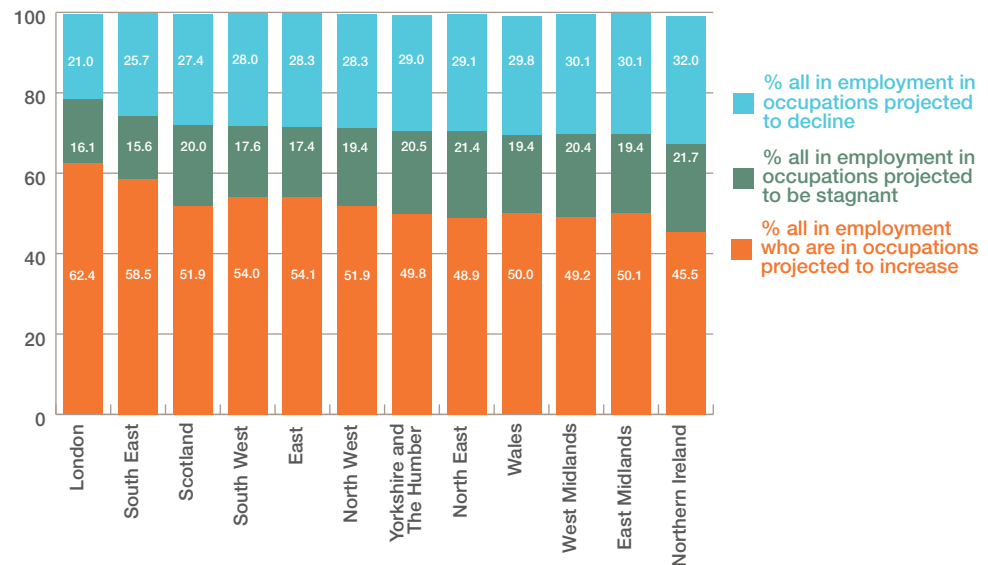
A similar regional pattern is visible in terms of the anticipated change in the occupational structure of the economy. As figure 6.8 shows, just one in five jobs in London are in occupations projected to decline in the coming years. However, in the West Midlands and the East Midlands, nearly one in three jobs is in a declining occupation.



**FIGURE 6.8**

**A greater proportion of jobs in London and the South East are in occupations which are set to grow**

*Percentage of jobs by region in occupations that are set to grow and decline between 2014 and 2024*



Source: IPPR analysis based on UK Commission for Employment and Skills, *Working Futures 2014– 2024* (UKCES 2016a) and Office for National Statistics' *Labour Force Survey*

These findings have important consequences for the adult skills system. First, with millions of jobs potentially at risk from automation, those displaced from the labour market will often need support to adapt and to retrain in order to secure decent and sustainable work. Those industries where there are both a high potential for automation, and a workforce with low levels of skills – should be a cause for concern for government, and a priority for action.

There is cause for concern here given the UK has a very poor record in adapting to industrial change in recent decades. Many areas which were affected by deindustrialisation at the end of the last century still suffer from a lasting legacy of low qualifications, low productivity and low pay (Dromey and McNeil 2017).

Second, while some jobs may be displaced by technological change, many more will be affected by and augmented by technology. Adults will increasingly have to work with and alongside technology, and some will have to update their skills in order to do so. A flexible and responsive adult skills system will be needed to ensure that adults can get the training they need to succeed.

## 2.9 CASE STUDY: THE TRANSFORMATION OF THE UK'S RETAIL SECTOR

Retail has undergone significant structural change in the last decade as a result of socioeconomic and technological trends. Online shopping,

automation, changing consumer trends and new technologies have contributed to the transformation of the sector, leading to big shifts in the occupational structure of the workforce.

The sector accounts for over 9 per cent of total employment, employing some 2.8 million people, and it is responsible for nearly 8 per cent of non-financial GVA (ONS 2016b, 2016c). While retail has grown overall since 2011, there are now 34,000 fewer people employed as sales assistants and retail cashiers and a further 12,000 fewer in sales-related occupations. This has been driven by the rise in online shopping, which has gone from under 5 per cent of sales in 2008 to over 13 per cent in 2016 (ONS 2016d), and by the introduction of automated tills in many supermarkets.

However, while online retail will continue to grow, it is not likely to signal the end of in-store sales. Retailers are increasingly focused on omni-channel retailing. Consumers are increasingly demanding greater customer service and heightened competition enabled by the internet has made them less loyal to particular brands and shops. In response retailers need to provide a more attractive retail environments to attract and retain custom.

Technological developments mean that some occupations within the retail sector have seen an increase in employment. Skills which complement technology have become more important, with rises in the number of people working in sales, marketing and associate professionals as well as design occupations since 2011. There have also been rises in some management roles, as well as in some very low-skill occupations like elementary cleaning occupations, reflecting the broader economic trend towards polarisation.

### **Looking to 2030**

The structural transformation of the retail sector is likely to continue, and even accelerate as technology and automation become widely adopted.

The wholesale and retail sector has the highest absolute number of jobs with a high potential for automation in the next two decades, with 2.4 million jobs at risk, 64 per cent of the total.<sup>2</sup> The UK Commission for Employment and Skills predicts that employment in retail will still grow slowly in the years up to 2024.

The structural changes within the retail workforce are expected to continue. As table 2.2 shows, the proportion of workers in sales and customer service occupations is expected to fall from 47 per cent of all retail workers in 2014 to just 42 per cent in 2024. There is expected to be a rise in the proportion of manager, director and senior official positions, as well as rises in professional and associate professional and technical occupations.

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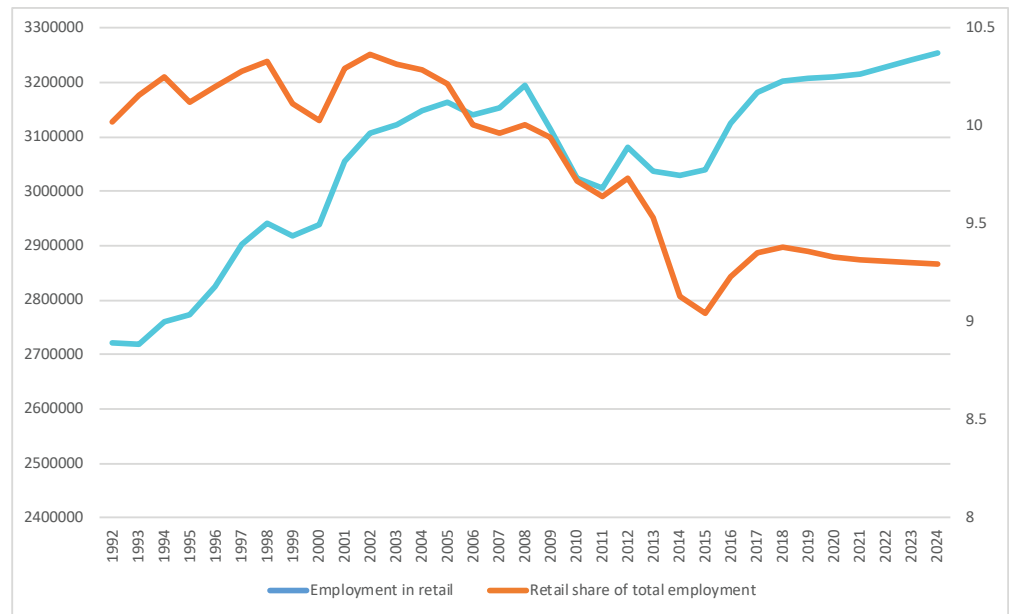
### **FIGURE 6.9**

#### **Retail employment is forecast for slow growth in the years up to 2024**

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<sup>2</sup> Analysis is based on occupational mix within industries, and uses Frey and Osborne's probability of automation of US occupations mapped onto UK SOC codes (see Frey and Osborne 2014). Analysis is based on 8 quarters of data, from Jan–March 2015 to Oct–December 2016.

*Retail employment (000s) and retail share of total employment, 1992–2014, forecast 2014–2024*



Source: UK Commission for Employment and Skills, 'Working Futures dataset' (UKCES 2015a)

**TABLE 2.2**

**Occupational composition of the retail sector, 2004–2024, per cent**

	2004	2009	2014	2019	2024
Managers, directors and senior officials	11	10	12	13	13
Professional	5	6	7	8	8
Associate professional and technical	6	6	8	8	9
Administrative and secretarial	8	7	6	6	6
Skilled Trades	6	6	5	5	5
Caring, leisure and other service	0	0	1	1	1
Sales and customer service	50	49	47	44	42
Process, plant and machine operatives	3	4	3	3	4
Elementary	11	12	11	11	12

Source: UK Commission for Employment and Skills, 'Working Futures dataset' (UKCES 2015a)

### Skills for the future

The changing occupational structure of the retail sector, and the ongoing impact of technological, economic and social trends will have a significant impact on skills demand in the retail sector. Conversations with a range of employers, trade bodies and academics reveal some of the skills which are likely to be in high demand by 2030 (see table 2.3).

**TABLE 2.3****Expectations for skills demand in the retail sector**

Skill	Demand
Strategic planning and management	Ongoing structural change will create opportunities for people with strategic planning skills, as the sector and workforce will need to continually adapt to the changing retail environment.
High technology literacy and IT skills	The rise in omni-channel and online sales will make technology skills increasingly important for working in retail.
Data management and analysis	The ability to collect, analyse and use vast amounts of customer data will become increasingly important, especially for managers.
Digital marketing skills	The growth in online and omni-channel shopping coupled with better customer sales data will allow companies to boost profits by investing in clever, targeted online marketing.
Sophisticated customer service skills	In-store sales jobs are likely to focus on providing a personalised shopping experience requiring sophisticated communication and customer service skills, and the ability to build brand loyalty.
Creativity	Product-curating skills and creative ideas for improving retail experiences in-store will be central to high street retail.
Product knowledge/expertise	Consumers are more informed than ever meaning that better product knowledge will be key to ensuring continued in-store footfall.
Mechanistic skills	There may be a growth in low-skill jobs such as picking and packing in warehouses which will require repetitive, manual work – although these jobs may be automated.
Functional skills	Maths, English and basic communication skills will remain important to the sector.

However, retail businesses are not strongly incentivised to develop skills in their workforce. Demand for and investment in skills in the sector is weak. Employers spend £1,100 per employee on training, compared to £1,600 across all sectors (UKCES 2016b). Skills utilisation appears to be poor with more than 40 per cent of workers in the wholesale and retail sector reporting that they are overskilled for their role (Wright and Sissons 2012).

There are numerous qualifications targeted at retail workers, particularly level 2 vocational qualifications; however, they tend to offer a very low level of skills and often merely accredit existing low-level skills. Employers tend to prefer to deliver training themselves.

Given the increased emphasis that will need to be placed on retraining in the future and the urgent need for more opportunities for progression in a sector where 40 per cent of workers are in low pay, important lessons come from an initiative to improve job and operational design (D’Arcy and Clark 2016). The Living Wage Foundation, working in partnership with leading retailers, has tested a new ‘Good Jobs’ toolkit<sup>3</sup> inspired by the Good Jobs Strategy (Ton 2014). This involves training staff to increase product knowledge and enriching job roles to include cross-training or multi-skilling – the practice of training employees in a broad range of skills, rather than rigidly delineating tasks between employees.

Cross-training allows businesses to manage variability in activities, ensuring that staff are utilised when the shop is not busy as well as when it is very

<sup>3</sup> See: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/545250/Progression\\_Brochure\\_A5\\_Jul\\_16\\_vFINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/545250/Progression_Brochure_A5_Jul_16_vFINAL.pdf)

busy. It also improves consumer satisfaction as an employee is more likely to be able to help with any query, and improves employee satisfaction as the job feels more meaningful (ibid). In the UK, cross-training is becoming increasingly important as technology is used for more routine tasks, and staff need to be able to take on a range of roles.

### **Conclusions**

The past decade has seen the retail sector transformed by the rise in online shopping, and other technological trends. The sector is likely to continue to shrink as a proportion of total employment as online sales continue to grow and as automation progresses. As a result of these changes, the largest occupation in the retail sector – sales and customer services – is likely to continue to decline, and the sector is likely to restructure towards higher-skilled managerial and professional occupations. Given the increased emphasis that will need to be placed on retraining in the future and the urgent need for more opportunities for progression, it will be important to consider the wider application of schemes such as the ‘Good Jobs’ initiative from the Living Wage Foundation.

### **2.10 CONCLUSION**

**The skills system has an important role to play in tackling existing underlying weaknesses in the economy:** including stalled productivity growth, low pay and in-work poverty, and poor rates of progression for low-skilled to mid- and high-skilled jobs. **While analysis suggests some jobs are at risk from automation, new jobs will also be created that will require workers to work more closely with advanced technologies.** Either way **workers will often need support to adapt and to retrain in order to secure decent and sustainable work.** Those industries where **there is both a high potential for automation, and a workforce with low levels of skills** – and therefore adaptability in the event of job loss – **should be a cause for concern for government, and a priority for action.**

### 3.

## FUNDING THE SYSTEM: IMPROVING INVESTMENT IN, AND UTILISATION OF, SKILLS AMONG EMPLOYERS

Funding for the adult skills system comes from three main sources: government, employers and learners. The Learning and Work Institute has estimated that £7.5–11 billion is invested in adult skills annually. This comprises of £3 billion in employer training fees, £2.5 billion in government funding, and £2–5.5 billion from individuals (LWI 2016).

However, we know that investment from both employers and government is falling, and that entitlement to public funding is being constrained (Dromey and McNeil 2017).

- **Employer investment is low and falling** – in 2010, employer investment in continuing vocational training in the UK was half the level of the EU average. Employer investment in training in England fell by £5.1 billion in real terms between 2007 and 2015; a decline of 13.6 per cent per employee.
- **Public investment in adult skills is being cut** – between 2010 and 2020, the adult skills budget will have fallen by nearly half in real terms.
- **Entitlement to public funding has been constrained** – the rules regarding eligibility to SFA funding have been changed, reducing eligibility to public funding. The introduction of Adult Learner Loans preceded a 31 per cent reduction in the number of learners aged over 24 on courses affected.

Investment in adult skills is currently skewed towards the educational ‘haves’ at the expense of the ‘have nots’. Workers are twice as likely to be participating in learning if they left full-time education aged 21 or over compared to those who left school at or before the age of 16 (NIACE 2015). The higher an employee’s existing qualification, the more employers are likely to invest in training them (LWI 2016).

The introduction of the apprenticeship levy is a recognition by government of the need to intervene in order to boost employer investment in skills, which has declined in recent years. It is also an effort to make the skills system more employer led, and to shift the burden of funding adult skills away from the state and on to employers.

As we have shown above, there is a compelling case for improving total investment in lifelong learning. The adult skills budget has been reduced significantly in recent years, and it should be protected from further cuts. However, while greater public investment would be desirable, we

recognise that it is unlikely given the considerable pressures on public finances in the 2020s (Lawrence 2016). Given this context, more needs to be done to further increase employer investment in the workforce and to remove barriers to individuals investing more in career learning.

### **3.1 BOOSTING EMPLOYER INVESTMENT: BROADENING THE APPRENTICESHIP LEVY**

While action to boost employer investment in apprenticeships through the apprenticeship levy is a genuine step forward, there are some concerns about how the apprenticeship levy will operate.

First, the amount the apprenticeship levy will raise is relatively small compared to the decline in employer investment in training in recent years. Total investment in training declined by £5.1 billion in real terms between 2007 and 2015 in England. However, the apprenticeship levy will raise less than half of this in England: just £2.2 billion in 2017/18, increasing to £2.5 billion by 2019/20.

Second, the apprenticeship levy in its current form does not support devolution. Decisions on how to spend the funds raised by the levy will be made by individual employers, the Institute for Apprenticeships will approve apprenticeship standards and assessment plans, and the Department for Education (DfE) will have oversight over the system. This is made explicit in the devolution deals. The Greater Manchester deal, for example, makes clear that devolution of adult skills does not apply to the apprenticeship system, and that any role for the combined authority will take place *'within the national framework where individual employers have control of their levy contributions'* (GMCA 2015). While the adult education budget is being devolved to local areas, it has been cut significantly in recent years and it is barely enough to meet statutory requirements, leaving local areas with limited discretion over how it is spent, and with limited ability to meet local needs.

Third, the apprenticeship levy and the associated reforms to the apprenticeship system seem to be focused on quantity to the exclusion of – and perhaps at the expense of – quality. The last government set a target of delivering 3 million apprenticeships by 2020, which was reaffirmed in the Conservative party manifesto.

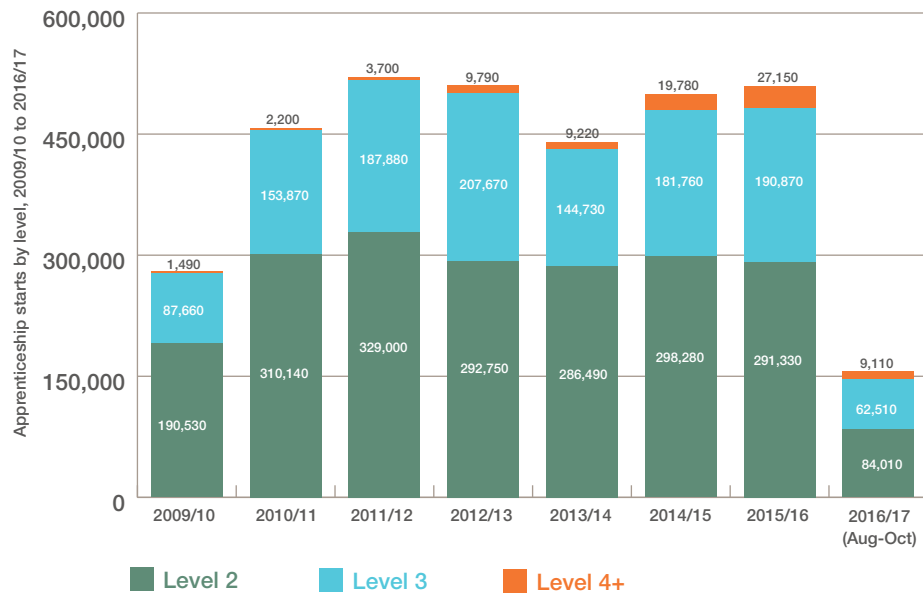
The levy appears to be the main tool to deliver this increase by boosting employer demand for and investment in apprenticeships. Yet at the same time, the system is being deregulated, with apprenticeships no longer required to include a recognised qualification, and employers being put in charge. In such circumstances, there is a risk that the quality of apprenticeships will be undermined. Employers may seek to recoup their levy funds by buying in high-volume, low-level, low-quality apprenticeships. The training may merely be rebranding of existing job- and firm-specific training as apprenticeships. This may undermine the quality of apprenticeships, which risks devaluing the apprenticeship brand. The target is also driving a focus solely on apprenticeships, rather than on other forms of training. Levy funds are not redeemable against training other than apprenticeships. This limits the flexibility of the system

and places unnecessary restrictions on employers for whom other forms of training may be more suitable and beneficial.

The system has also driven a focus on apprenticeships at low levels. As figure 3.1 shows, most apprenticeships are delivered at level 2, and the vast majority are at level 2 or level 3. In 2015/16, 95 per cent of apprenticeships were delivered at level 2 or 3. While the number of apprenticeships at level 4 and above has started to increase, they remain a very small fraction of all apprenticeships.

**FIGURE 3.1**

**Only one in 20 apprenticeships are at level 4 or above**  
*Apprenticeship starts by level (2009/10–2016/17)*



Source: FE Data Library, apprenticeship statistics (FE Data Library 2017)

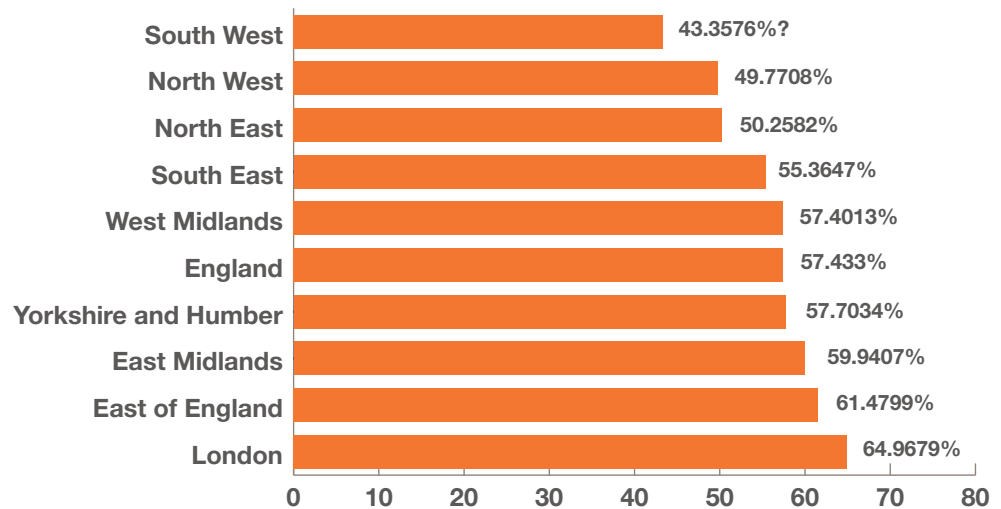
Finally, the apprenticeship levy may raise more money – and stimulate further training – in regions where it is least needed. As the levy is based on the size of an employer’s payroll, its impact on an area will depend on both the number of large employers, and on average pay. In both cases, London is an outlier. As figure 3.2 shows, two in three employees working in the private sector in London work in businesses with 100 or more employees, compared to one in two in the South West and North West. Pay is also far higher in London. A business in the capital with 68 employees on average pay would be subject to the apprenticeship levy. Yet a business in the East Midlands, Yorkshire and the Humber, the South West or the North East with 120 employees on average pay would not pay the levy.



**FIGURE 3.2**

**A greater proportion of employees in London work in businesses that will be affected by the apprenticeship levy in London**

*Percentage of employees working in businesses with 100 or more employees by region*



Source: IPPR analysis of Office for National Statistics, 'Business Population Estimates' (ONS 2016e)

As London has both a greater proportion of workers employed by large employers, and far higher pay, it is likely that a far greater proportion of employers will be subject to the levy. This would suggest that the levy would stimulate training more in London, as more employers will have levy funds that they could recoup. However, London has lower skills needs than the rest of the country; the proportion of adults with a level 2 qualification or higher is 3 percentage points higher than in the rest of England, and the proportion with a degree-level qualification (level 4) is 16 percentage points higher (IPPR analysis of ONS 2017c). Demand for apprenticeships also seems to be lower in London; there are 1.6 times as many applications per place in the North East and Yorkshire as there are in London (Centre for Cities 2017).

It is not possible to confirm exactly how many employers will be eligible by region, as it is based on payroll data held by HMRC. Remarkably, the government has not conducted an assessment of the regional impact of the apprenticeship levy (Parliament 2017).

However, it seems that the levy will raise less, and therefore stimulate training less, in the areas where it is needed most and where there is the highest demand for apprenticeships.

### **3.2 INTRODUCING A 'SKILLS AND PRODUCTIVITY LEVY'**

Although the apprenticeship levy will help boost employer investment in skills, it would neither bring employer spending back to the levels of a decade ago, nor would it bring us close to the EU average. In the

absence of further public investment and demonstrable underinvestment by employers, **we recommend that the government expands the apprenticeship levy into a wider ‘skills and productivity levy’** in order to help prepare the UK’s workforce for the challenges ahead. This would also bind employers into an institutional settlement that coordinates them more effectively at the sectoral level and offers a more decentralised approach to funding and delivery.

**Recommendation: the apprenticeship levy should be replaced with a ‘skills and productivity levy’ which would:**

- apply to all employers with 50 or more workers
- be set at 0.5 per cent of payroll or 1.0 per cent of payroll for the biggest employers with 250 or more workers
- be redeemable not just for apprenticeship training, but for basic skills training, high-quality vocational education and training, and business support
- allow sectors to tailor the levy to their specific needs – sectoral institutions should be able to opt on a voluntary basis for an increased levy in their sector beyond the statutory minimum, and to invest unspent levy funds in strategic priorities
- top-slice a quarter of the contributions of the largest firms to provide a regional skills fund that would be devolved along with the adult education budget to invest in high-quality vocational education and training.

The skills and productivity levy would have raised £5.1 billion in 2017/18, more than double the amount raised by the apprenticeship levy, and equivalent to the decline in employer spending over the last decade.

The regional skills fund would be worth £1.1 billion in 2017/18. It should be devolved according to skills need, based on the proportion of workers in an area who do not have at least a level 2 qualification. This would mean areas with lower skills, such as the West Midlands, will receive roughly twice as much funding per head than areas with higher skills, such as Oxfordshire. It would restore the adult education budget nearly to the levels of 2010/11, giving a real boost to skills devolution.

**Recommendation: the government should abandon its target of 3 million apprenticeships by 2020. While an increase in the number of apprenticeships would be welcome, a focus on quantity alone risks undermining quality. Instead government should seek to boost both the quantity and quality of apprenticeships. This should be done through:**

- setting a target to increase the number of apprenticeships at level 3 and above to 60 per cent of the total and the number at level 4 and above to 20 per cent of the total by 2021/22 (this would require a small increase in the growth of those at level 3+, but a significant acceleration in the number at level 4+)
- reinstating the requirement for a recognised qualification to be part of all apprenticeships

- ensuring that existing rules around provision of off-the-job training are enforced
- monitoring and seeking to improve labour-market returns from apprenticeships
- requiring the Productivity Commission to report annually to parliament on productivity, job quality, and training quality.

The system we outline in chapter 4 would ensure a greater focus on quality of provision. Sectoral institutions, with representation from both employers and employees, would be responsible for setting out the content of apprenticeships and other training. Local institutions would be responsible for quality control and ensuring that high standards are adhered to.

### 3.3 ENCOURAGING INDIVIDUAL INVESTMENT

The adult skills system should seek to put learners in control of their learning, their careers and their future. The skills and productivity levy would help boost employer investment in skills. We set out in chapter 4 how decisions on how the levy would be spent should be governed by strong sectoral institutions. Beyond boosting employer investment though, there is a strong case for supporting greater investment from individuals also.

Boosting skills can – if they are used effectively – deliver benefits not just to employers, but to individuals through higher wages and opportunities for progression, and to the wider economy through greater productivity and growth. In this respect, while it is important for the state and for employers to continue to invest in adult skills, it is reasonable too for adults to be expected to make reasonable contributions when they can.

First, individuals already invest between £2 billion and £5.5 billion per year in their own learning, with opportunity costs (including lost earnings from time they could have been working) in addition to that (LWI 2016). This represents between a quarter and a half of all investment in adult skills. However, we know that adults with lower levels of qualifications are likely to earn less, and therefore be less able to invest in their own education and training. We also know that adults with higher levels of qualifications are more likely to receive training paid for by their employer (LWI 2016).

Second, while greater collective action and stronger sectoral institutions can improve the quality of training and make it less role- and firm-specific, employers can only be expected to act in their own interests. While there are associated benefits such as greater individual commitment, employers will inevitably be primarily interested in training that can boost an individual's performance within their organisation, and therefore support productivity and performance. It would not be reasonable to expect employers to deliver training that would support an individual to progress outside of their organisation, or to switch careers.

Third, there are some important groups who will not be supported by an employer-led and apprenticeship-focused approach to adult skills.

- **Self-employed workers** – the number of self-employed workers has been increasing rapidly in recent years. There are currently 4.1 million

self-employed adults in England, up from 3.2 million a decade ago (ONS 2017d). Self-employed workers do not have an employer who will invest in their training, and, while there is significant variation within this group, they are poorly served by the current system. Although there is significant variation within the self-employed population, self-employed workers are more likely to have lower levels of skills: 25 per cent do not have a level 2 qualification compared to 21 per cent of employees (IPPR's own analysis). Self-employed workers earn less than employees, and their earnings are lower than 20 years ago in real terms (Resolution Foundation 2016).

- **Part-time workers** – apprenticeships must involve a minimum of 30 normal working hours a week, and so are not available on a part-time basis. This can make them difficult to access for adults with limitations on working hours as a result of caring responsibilities or health and mental health conditions.
- **Unemployed adults** – while unemployment has declined significantly in recent years, there are still 416,000 adults on jobseeker's allowance (JSA) in England, or 1.2 per cent of the population. The number of adults on incapacity benefits has remained stubbornly high, and currently stands at 2 million or 5.8 per cent of the working-age population (ONS 2017e). Adults on JSA are four times as likely and those on employment support allowance are six times as likely to have no skills as those in work (IPPR analysis of ONS *Labour Force Survey*).

### 3.4 PERSONAL BUDGETS

In the face of transformative change in the labour market, some countries have recently adopted personal budget approaches to adult skills. The aim is to make the system more responsive to learner needs, to support adults to engage in lifelong learning, and to keep their skills up to date and ensure they are relevant for the modern labour market.

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#### Compte Personnel de Formation in France

The Compte Personnel de Formation (CPF), or Personal Training Account, is a publicly funded scheme to encourage lifelong learning which was introduced in France in 2015.

The CPF is available to private sector employees and to jobseekers aged over 16, but not to the self-employed or to public sector workers who have an individual right to training.

Adults receive a credit equivalent to 24 hours of training per year into a digital account for the first five years, and then 12 hours a year for the next two and a half years. Part-time workers get a pro-rata equivalent.

The number of hours can be topped up by:

- the individual
- their employer
- national and regional government
- OPCAs – sectoral bodies which manage and finance continuing vocational training in the private sector

- for jobseekers, the Pole Emploi – the French equivalent of Jobcentre Plus – can contribute.

The training hours can only be redeemed against courses deemed eligible by regional councils, professional bodies, and social partners.

In the first year of operation (2015), 208,000 training records were validated, with the rate increasing towards the end of the year.

Source : [www.moncompteformation.gouv.fr](http://www.moncompteformation.gouv.fr), [www.legifrance.gouv.fr](http://www.legifrance.gouv.fr)

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### SkillsFuture Credit in Singapore

The SkillsFuture Credit is a universal benefit for Singaporean citizens that aims to support individual ownership of skills and encourage lifelong learning. Its objective is to help citizens keep up to date with a world of work which is transforming rapidly as a result of technological change and globalisation. Lifelong learning is seen as crucial in helping adults to stay relevant in a changing economy and to advance their careers.

Administered by the Singapore Workforce Development Agency (WDA), the SkillsFuture Credit provides every citizen aged 25 years or over who has completed full-time education with \$500 (equivalent to £273) in 2016. The credits do not expire, and the government has pledged to top them up at regular intervals. The credits can be used to pay for out-of-pocket course fees for work-related training. They can be used on top of existing government-provided course fee subsidies.

While the SkillsFuture Credit has to be spent on work-related skills, it is seen as distinct from specifically *job-related* training, which employers are expected to provide and employees are not expected to contribute towards. There are generous subsidies for employers to invest in training for their employees, with subsidies of from 50 per cent up to 95 per cent of the costs of the course for SMEs. The SkillsFuture Credit is therefore seen as complementing employer-investment and fostering a culture of lifelong learning.

The credits can be used to pay for work-related training supported by public agencies, including: vocational training provided by the Singapore Workforce Development Agency, courses at universities, polytechnics or the Institute of Technical Education, or any other subsidised course provided by other public agencies. By limiting the use of the SkillsFuture Credit to courses at publicly supported institutions, the government hopes to ensure quality, educational outcomes and value for money. The Ministry of Education and the Workforce Development Agency plan to work with public and private education providers to ensure that the SkillsFuture Credit doesn't lead to inflation in course prices.

Source: Singapore Ministry of Manpower 2016 (<http://www.mom.gov.sg/-/media/mom/documents/budget2015/faqs-skillsfuture-credit.pdf>)

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The UK has experimented with personal budgets for learning in the past.

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### Individual Learning Accounts in England

The government introduced Individual Learning Accounts in England in September 2000. Their aim was to overcome financial barriers to learning and to widen participation.

The government hoped to target those with particular skills needs, including young people without qualifications and in low-skill work, employees in SMEs and those looking to return to work.

The scheme was to be funded with £128 million from winding down the training and enterprise councils, and £40 million additional funding.

The scheme attracted over a million people back into learning. However, there were significant problems with overspending and fraud. Total expenditure exceeded £290 million, well over the budget of £199 million, and estimates put the amount lost to fraud and abuse at up to £97 million.

The Committee on Public Accounts ascribed the failure of Lifelong Learning Accounts to a number of key weaknesses with the programme.

- **Poor planning and piloting** – implementation of the scheme was rushed. The pilots identified challenges with the delivery model, and instead of learning from these, a new model was developed and launched without having been tested.
- **Minimal bureaucracy and controls** – in an attempt to encourage more adults to participate and new providers to enter the market, the scheme was designed to have minimal bureaucracy. There were as a result few checks on learners, providers or quality within the scheme.
- **Belief that the market would drive up standards** – the government chose to rely on market forces to ensure inefficient and ineffective providers were driven out. This was described by the Committee on Public Accounts as ‘naive’.
- **Incentives for providers to recruit learners** – the scheme incentivised providers to actively recruit learners, with many responding with aggressive marketing strategies.
- **Poor contract management** – the programme was contracted out to Capita and contractual arrangements were weak. Risk was not shared between Capita and government. Risk management and project management were weak.

The Committee on Public Accounts made a number of recommendations as a result, including, ensuring potential learners have sufficient access to information and advice, and considering restricting public spending to accrediting providers.

Source: PAC 2003

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The National Careers Service provides a Lifelong Learning Account. However, this is primarily a self-directed tool for information, advice and guidance, allowing adults to access and store information to help

people make informed choices about lifelong learning and careers, and to signpost people to further support. It allows adults to undertake a diagnostic Skills Health Check, to develop an action plan, to build a CV, to search for appropriate courses, and to identify eligibility for public funding (National Careers Service 2017).

The Learning and Work Institute (LWI) has called for the introduction of personal learning accounts (LWI 2016). This would be a single online portal that would provide access to:

- a skills passport detailing qualifications gained
- information on the local labour market and performance of local providers
- entitlements to public funding and loan support
- a Help to Learn Bonus, under which government would top up money saved by an individual towards training costs, starting initially with universal credit and tax credit claimants.

LWI argue that this personal learning account would encourage co-investment and tackle inequalities in learning (ibid). However, it would involve a significant financial commitment from the individual, yet we know that adults with low levels of skills and in low-paid occupations are less likely to participate in learning, and that they may struggle to afford the contributions they would have to provide under the system. LWI argues that the scheme may cost an additional £10 million by the end of the decade, assuming 15 per cent take up (ibid). This is likely to have a very limited impact on the volume of training.

The Association of Colleges (AoC) has also called for the introduction of personal learning accounts to support individuals to keep their skills up to date. Under their model, individuals would be given a single budget at age 18 with flexibility over courses, levels, modules and duration (AoC 2017). AoC calls for accounts to be used to target funding at those with particular needs, such as those with low-level qualifications, those in insecure work, and people who are made redundant. The AoC would allow individuals and employers to invest alongside government contributions, and it would reform the National Career Service to support adults to make informed choices about their learning (ibid).

Personal budgets have been successfully used in healthcare services in the UK since 2009, with the aim of improving personal choice over healthcare, and increasing value for money.

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### **Personal health budgets in England**

Pilots of personal health budgets were introduced in 2009. Under the scheme, NHS funds are made available to individuals with identified health needs in order to buy the services that they want to manage and improve their health. After a positive evaluation, they have been progressively rolled out, with all NHS patients who receive ongoing health funding eligible to request a personal budget since April 2014.

Evaluations of the pilots found that personal budgets had a significant beneficial impact on both care-related quality of life, and

psychological wellbeing. International studies have also found that those receiving personal health budgets reported improvements in the quality of care received. No significant impact was found on clinical outcomes, however, or on health-related quality of life.

There is also evidence to suggest that personal budgets can be more efficient. Those who received personal budgets in the UK pilots were less likely to use inpatient, A&E and GP Services. Overall healthcare costs were not significantly lower, but this may be due to the fact that existing services were not decommissioned as this was a time-limited pilot, and so reduced use of other services was not sufficient to mitigate this cost. Where personal budgets have been offered on a cost-neutral basis, the total use of services was lower.

Source: Alakeson and Rumbold 2013

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## RECOMMENDATION

**The government should introduce a personal training credit to narrow the participation gap in career learning and to give individuals control over their learning and career future.** This should be designed to incentivise co-investment in skills between individuals and government, and it should focus resources where they would make the most difference.

In the short term, the personal training credit should be targeted at those who could most benefit from participation in training, but who are currently least likely to participate. The following amounts should be available:

- £350 a year for the 18.8 million adults without an NVQ level 3 qualification
- £350 a year for the 5.7 million adults on low pay<sup>4</sup>
- £350 a year for the 1.6 million adults who are unemployed.

Any unspent levy funds would roll over, up to a maximum of £2,000. This would mean an adult who is in work, on low pay and without a level 3 qualification, would accrue an entitlement of £700 a year through their personal training credit. Similarly, someone who is out of work and without a level 3 qualification would be entitled to £700 a year. Someone in work, but not in low pay would be entitled to £350 a year.

For those in work, the personal training credit would be accessible as co-investment. A worker looking to access their personal training credit should be required to contribute a sum equal to at least half of their entitlement. So to unlock the full £700, an adult in work would have to contribute £350, giving them £1,050 per annum to invest in their training. This would allow an individual to pay for the average NVQ level 2 course in 18 months, or an NVQ level 3 course in three years. Alternatively, if they wanted to access the training earlier, they should be able to borrow as set out below.

There are a number of reasons for requiring co-payment from individuals:

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4. Defined as those on an hourly wage below 2/3 of the median.



- as both the individual and the state would benefit from skills training, both should contribute where possible – as the Leitch report argued, the case for co-payment is particularly strong for qualifications beyond level 2 where the wage and productivity returns tend to be far higher (Leitch 2006).
- requiring a contribution from individuals gives them ‘skin in the game’ and would help ensure learner commitment (LWI 2016)
- requiring a contribution would limit the overall cost of the scheme
- co-payment would also ensure that state funding is used to leverage additional investment, thereby increasing the total amount spent on adult skills, and the amount of training.

However, adults who are on out-of-work benefits should have access to the personal training credit, but should not be required to contribute towards the costs of training. In recognition of greater skills needs among the unemployed, and of their limited ability to contribute themselves, DWP should instead contribute £250 per year towards their personal training credits in the place of the learner. Jobcentre Plus work coaches or other employment advisors should agree training plans with these individuals, as part of a coherent back to work plan. Work coaches should also be entitled to waive contributions for those in-work on universal credit who would benefit from participation but may be unable to afford the contribution.

In the longer term, support through the personal training credit should be expanded to all adults. This could be delivered through the same mechanism as the Lifetime ISA, under which adults saving for a first home or for retirement receive a 25 per cent matched contribution from the state (HMT 2016). Adults could be given the additional entitlement to draw down funding from their Lifetime ISA to use for training costs. While it may lead to a small increase in uptake of Lifetime ISAs, it would not represent an additional spend per person, as it would come out of existing entitlements that would otherwise be accessed on buying a home or retiring. It could also lead to a more productive use of the funds, compared to its current usages.

Adult Learner Loans should be integrated into the personal training credits, allowing learners to borrow to cover training costs. However, the entitlements available would reduce the need for adults to fund their learning through taking on debt.

Individuals should be permitted to top up their personal training credits, over and above the amount needed to unlock their funds. Other organisations should also be able to top up accounts including trade unions and local government.

The personal training credit should be provided alongside high-quality information advice and guidance. It would take the form of a virtual account, allowing individuals to access information on how much they have available, how much they would have to invest to unlock it, and courses available. It could be introduced through the current Lifelong Learning Accounts, available through the National Careers Service.

As both the experience of the Individual Learning Accounts and personal health budgets in the NHS show, having access to high-quality information, advice and guidance is vital in helping individuals to make informed decisions (Davidson et al 2012 and PAC 2003). We examine the role of information, advice and guidance in more detail in chapter 4.

Government should seek to stimulate demand for and take-up of training among groups who are currently less likely to participate in lifelong learning, and who might most benefit from participation. Government should target those who are stuck in low-paid work, using HMRC and DWP administrative data, to highlight their entitlement to training, and to help identify training needs and suitable courses. Should in-work conditionality be rolled out under universal credit, the advisors delivering the service should support adults to identify and address skills needs using their personal training credit.

The personal training credit should go alongside existing entitlements to free basic education, including:

- English and mathematics qualifications to level 2
- other employment-related level 2 qualifications
- English for speakers of other languages (ESOL).

However, the personal training credit would provide greater access towards level 3 and level 4 courses which have higher wage and productivity returns.

Whereas the current system is geared towards funding only full courses, learners should be able to invest in modular provision that allows them to continuously build on and develop their skills.

As is happening in Singapore, government would need to work with providers to ensure that prices for training do not rise excessively as a result of increased demand.

The personal training credit would learn the lessons of the failures of the Individual Learning Account, set out in the box above.

- With the Individual Learning Account, in an attempt to attract new providers to the market, the scheme had minimal controls on who funds could be spent with, or checks on the quality of provision. In order to ensure that public funds are used appropriately, use of the personal training credits should be restricted to both courses and providers that are approved by sectoral institutions, as set out in chapter 4. This would ensure that account funding is spent only on high-quality vocational training that will deliver labour market returns, benefiting both the individual and the state.
- The pilots of the Individual Learning Account identified challenges, but instead of addressing these, a new model was developed and launched untested. In order to ensure the personal training credit delivers value for money, it should be piloted in a city-region area before being rolled out more widely.
- The Individual Learning Account did not require individuals to co-invest along with the state. Under the personal training credit,

learners would be required to co-invest in the training, rather than just drawing down government funding.

The Individual Learning Account had weak project and risk management procedures. The personal training credit should be designed with robust procedure to manage delivery and, with ongoing monitoring of the use of the budget to identify potential misuse.

### Cost

Based on the initial entitlements, and assuming that a tenth of available funding is accessed,<sup>5</sup> the personal training credit would cost £912 million per annum across the whole of the UK, or £767 million in England.

If the apprenticeship levy was increased – as we recommended with the productivity and skills levy above – the personal training credit would be deliverable within the existing adult education budget.

In 2016/17, the government spent £3.2 billion on adult further education, including £926 million of funding for 19+ apprenticeships (Boles 2015). A larger levy of 1.0 per cent on large employers would reduce the need for government investment in 19+ apprenticeships, allowing for this money to be reinvested to fund the personal training credit. In time, government could boost investment in the personal training credit to ensure more workers are able to access high-quality training.

A pilot of the personal training credit should be undertaken in a city-region to examine its impact on participation in training. A pilot with existing claimants of universal credit could demonstrate whether this approach could increase participation in training among adults who are out of work or in work and on low pay. Table 3.1 shows how many adults would be involved in the pilot in each region, and the estimated annual cost.

**TABLE 3.1**

### Number of universal credit claimants and cost of personal training credit pilot by region

	Universal credit claimants out of work (April 2017)	Universal credit claimants in work (April 2017)	Annual cost of personal training credit pilot (£m)
Greater Manchester	27,349	14,814	£2.5
Liverpool city-region	21,552	11,094	£1.9
London	57,109	32,643	£5.3
West Midlands	17,327	9,016	£1.5

Source: Estimates based on data from DWP Stat Explore, assuming 10 per cent take-up, and assuming skill profile of low-paid and unemployed workers in regions matches national profile

<sup>5</sup> This is a conservative estimate. The CDF in France was accessed by around 1 per cent of eligible adults in its first year. However, use was increasing towards the end of the year, plus the annual contributions roll over, meaning individuals may be more likely to access them later when they have accrued more. In England the Individual Learning Account was accessed by over 1 million adults out of nearly 30 million eligible. LWI assume 15 per cent take up under their proposed personal learning account (LWI 2016).

A pilot should be undertaken in a city-region to test this approach, with funding provided jointly by the government's £40 million lifelong learning pilot fund, and through the city-region's adult skills budget.

### **3.5 BOOSTING SKILLS DEMAND AND UTILISATION**

Improvements in the levels of skills and qualifications in the workforce will not inevitably boost productivity and economic performance. Leitch recognised this in his 2006 report on adult skills, saying that his targets for boosting skills will only deliver economic benefits if they are 'based on economically valuable skills that are effectively used in the workplace' (Leitch 2006).

The experience of the UK economy has shown this to be the case. In the decade since the Leitch review, the proportion of adults with at least NVQ level 2 qualifications and at least NVQ level 4 qualifications has increased by 11 per cent and 10 per cent respectively, yet productivity has increased by only 1 per cent, and real pay has declined (Dromey and McNeil 2017). The assumption that boosting skills would create a knowledge economy, and deliver wider economic benefits has been proven to be misplaced.

As previous IPPR research has argued, improvements in workforce skills and qualifications will need to be matched by increased investment, innovation, skills utilisation and demand if they are to deliver sustainable economic improvements (Lawton 2009). Government therefore has an interest not just in boosting skills levels, but in encouraging and supporting firms to pursue the 'high-road' to success, with competition based on quality and value rather than just price, enabled by continuous improvement, innovation and investment in skills.

A number of advanced economies have developed policies and institutions that seek to improve skill supply, demand and utilisation in a holistic way, in order to boost productivity and economic performance.

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#### **The Finnish Workplace Development Programme**

Managed by the Ministry of Labour, the Finnish Workplace Development Programme aimed to improve both organisational performance and job quality through promoting innovation and employee skills in Finnish workplaces.

The initial programme ran from 1996 to 2003, with 670 projects funded, and 1,600 employers and 135,000 employees taking part. Nationally, the Workplace Development Programme focused on conducting research, organising seminars and building up national infrastructure. It also operated enterprise-level workplace development projects, which focused on job design, improving work practices, external networking, the role of management and introducing new forms of work organisation.

A second phase of the project, which began in 2004 was called the Development Programme for the Improvement of Productivity and the Quality of Working Life. With a budget of €70 million, the project focused both on enhancing productivity and the quality of working life.

Evaluations on both stages of the programme highlighted a positive impact on team work, employee competence, access to training, and learning and cooperation between employees and managers.

Source: Buchanan et al 2010

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### **The New Zealand Skills Strategy**

The New Zealand Skills Strategy, developed by a tripartite group of government, employers and labour, set out a series of actions that aimed to boost not just supply of skills, but also demand for and utilisation of skills by employers.

One of the four priorities underpinning the strategy was to build the capability of firms to support managers and workers to better develop and utilise skills. This included the following actions:

- using public-private partnerships to enhance management capability in targeted geographic areas or industries
- streamlining government's firm capability programmes and improving their links with private-sector initiatives.

Another of the priorities for the strategy was to enhance the relationship between the supply of skills, and the demand for them. This included the following actions:

- developing industry-specific skills action plans which were supported and led by industry training organisations and other industry bodies
- improving access to careers and labour market information and advice for adults in the workforce, including enabling pathways within and between industries.

Source: New Zealand Government 2008

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The Government has recently established a Productivity Council to focus on boosting management skills and productivity in the UK.

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### **The Productivity Council**

The Productivity Council has been established as a business-led initiative to boost management skills and productivity in the UK.

The Productivity Council was set up following the work of the Productivity Leadership Group, established by Charlie Mayfield and a group of senior business leaders in July 2015, to address the UK's stalled productivity performance. The group sought to improve practices, focusing in particular on management and leadership, innovation, digitisation, work organisation and measurement. The Productivity Leadership Group called for the establishment of the Productivity Council in order to continue their work.

Led by private-sector employers, the Productivity Council will receive £13 million in seed funding over the next three years. It will have an

advisory board, a chief executive, a leadership team of five people and up to 15 staff.

Source: <http://smallbusiness.co.uk/> and <https://howgoodisyourbusinessreally.co.uk/leadership/>

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While a greater focus on boosting productivity is welcome, there are some drawbacks with the Productivity Council.

First, while an employer-led initiative may have some benefits, there is a lack of employee representation on the Productivity Council.

Second, the Productivity Council and the Productivity Leadership Group have not paid sufficient attention on skills. While the focus on management and leadership, innovation and work organisation is important, there is a need to integrate the skills agenda with any attempt to drive up productivity.

Finally, the Productivity Council is very small in scale. It will receive funding of around £4 million a year for the next three years, and it will have only around 20 employees. We cannot necessarily equate size and budget with impact, but it does seem out of kilter with the scale of the problem the council has been set up to tackle and its importance to the UK economy.

## **RECOMMENDATIONS**

**The government should establish new economic objectives to improve the quality of work and expand its definition of full employment.**

The Department for Work and Pensions has a duty to report to parliament each year on progress towards full employment as part of the Welfare Reform and Work Act 2016. We argue the government should expand its definition of full employment beyond just the employment rate, to focus on the quality of work. Government should establish targets for improving the quality of work, monitor progress towards delivering these, and report annually to parliament on this. The standard used for this should be developed by DWP in consultation with stakeholders but they should include:

- task factors including training and opportunities for development, autonomy, discretion and ability to make a difference; physical working conditions and ability to make a difference
- employment factors including pay and opportunities for progression; job security; hours of work and work-life balance
- relational and governance factors including perceptions of fairness, trust and mutual respect; opportunities for voice, involvement and participation. (Findlay 2016).

**By 2020, the government should merge the Productivity Council and the Institute for Apprenticeships to form a broader and more powerful Productivity Commission.**

While the Productivity Council's focus on management and leadership is vital, these are just two aspects of what is needed for a comprehensive agenda to raise productivity, wages and job quality in the UK. Workplace performance refers to factors such as job quality and design, work organisation, human resources policies and workforce skills (Lawton 2009). Without a focus on these broader factors, the role of the council in helping to raise productivity will be constrained.

Many European countries operate successful state-backed programmes to help employers drive up workplace performance, in partnership with trade unions and government, but this approach is lacking in the UK.

The Productivity Commission's mission should be to help firms focus on high-value, high-skill economic development and improvements in productivity and economic performance. The powers of the commission would derive from its statutory responsibility to report annually to parliament on the state of workplace performance in the UK, its role in approving all vocational standards and qualifications, and powers to intervene in the activities of sectoral institutions where these are not functioning properly and to withhold skills funding where appropriate.

In addition to the existing responsibilities of the Productivity Council on management and leadership, innovation and work organisation, it should undertake a number of additional functions to help improve productivity in the workplace.

- **Provide system-leadership** – The Productivity Commission should report annually to DWP on the state of UK productivity and workplace performance. This should benchmark the UK against our global competitors, identify emerging challenges, and make recommendations for addressing weaknesses. It should inform the government's annual reporting to parliament on full employment and job quality.
- **Raise profile and awareness** – The commission should be responsible for demonstrating the business case for more effective workplace performance in the UK and for leading initiatives to improve job quality and design, work organisation, human resources policies and workforce skills to boost productivity
- **Provide labour market intelligence and foresight** – the government has recognised the lack of a single authoritative source of information on current and future skills needs and skills gaps (BEIS 2017). The Productivity Commission should be responsible for working with sectoral institutions to monitor skills needs, identify gaps and forecast future needs.
- **Build capacity among sectoral institutions** – it should have the power to intervene where sectoral institutions are not functioning properly, including the power to withhold apprenticeship levy/skills and productivity levy funds from employers within the sector.
- **Build capacity among local productivity commissions** – working with combined authorities and local government to establish local institutions described in chapter 4, and build their capacity.
- **Approve content of training designed by sectoral institutions** – the Productivity Commission should take on the role of the Institute for Apprenticeships in approving the design of apprenticeships. It should be

responsible for signing off the vocational standards produced by sectoral institutions, and the content of both apprenticeships and other training courses within each sector. The Productivity Commission should work with sectoral institutions to design the single common framework of technical standards, as recommended by the Sainsbury Review and the Skills Plan (Sainsbury 2016, BIS and DfE 2016).

In order to ensure that the Productivity Commission is representative of as broad a range of interests as possible, it should be a social partnership body which represents the distinct interests of employers, employees and government. Membership should include the following:

- **Government** – the minister for productivity and skills (see chapter 5), and senior civil servants from BEIS and DfE
- **Employers** – the council should include employer representatives nominated from sectoral institutions, as well as representatives of SMEs, and business groups including the CBI and the Federation of Small Businesses
- **Unions** – the council should include employee representatives, nominated via the TUC, and representing a broad range of sectors – the number of employee representatives should be equal to the number of employer representatives
- **External experts** – as with the Low Pay Commission, the Productivity Commission should include experts such as academics and economists to inform the work of the body.

The Productivity Commission should be provided with additional funding to meet these additional responsibilities by top-slicing the skills and productivity levy. A 1 per cent top-slice of employer contributions would provide an annual budget of £50 million – 10 times higher than the current Productivity Council’s budget. As is planned with the Institute for Apprenticeships, members of the Productivity Commission should be remunerated for their time, given the level of commitment it would require (BIS/DFE 2016).

In the meantime, the government should invite trade union representatives to join the Institute for Apprenticeships to ensure that employees have a voice in the decisions it makes.

### 3.6 SUPPORTING PROGRESSION FOR THE LOW PAID AND LOW SKILLED

A consequence of the UK’s long tail of low-skill, low-productivity firms is the prevalence of low-paid work and poor rates of progression. Of those in low pay in 2002, nearly three in four (73 per cent) had not managed to escape low pay a decade later (Hurrell 2013).

The current adult skills system is not sufficiently focused on supporting adults in work on low pay to progress. Funding entitlements for those in work have been restricted. Adults in work aged 24 and over are now entitled only to full funding for English and maths qualifications, whereas level 2 qualifications are co-funded and no funding is available for level 3 qualifications beyond Advanced Learner Loans (SFA 2016). The introduction of Advanced Learner Loans was followed by a 31 per cent decline in participation in affected courses (Adams et al 2016).



In addition to the limited entitlement to public funding for low-skill, low-paid workers, there is evidence that many employers are unwilling to invest in their low-skill, low-paid employees. Employers are more likely to invest in training for higher-paid, higher-skilled workers than in low-paid, low-skilled workers (LWI 2016).

The UK has long had a ‘work first’ approach to the unemployed, under which jobseekers are supported to return to work as soon as possible. This approach works for some people who are closer to the labour market. However, it has been less successful for adults who face more significant barriers to employment.

For many jobseekers, low levels of skills are a significant barrier to employment. Adults on JSA are four times as likely to have no qualifications, and a third as likely to have degree-level qualifications, as adults in employment.

There are also concerns that while the ‘work-first’ welfare to work system has been effective at supporting those closest to the labour market into work, it hasn’t sufficiently focused on supporting individuals to go on to progress in the labour market and build a career. Welfare to work programmes have sought to focus more on longer-term sustainability in work, rather than just job entry, but they have not targeted progression for those who are supported into work.

The introduction of universal credit will transform the way the state interacts with adults in work on low pay. The government intends to introduce a new service to support universal credit claimants who are in work on low pay to increase their earnings, by either working more hours or increasing their pay. Claimants will be required to take mandatory actions towards these ends. This would extend conditionality from jobseekers to those in work for the first time.

Extending support and conditionality to those in work has been described by the work and pensions select committee as ‘the most significant welfare reform since 1948’ (Work and Pensions Committee 2016). In order to ensure it is a success, and that it is supportive rather than punitive, it must ensure that the ‘structural barriers to progression’ are addressed, including skills and training (ibid). The introduction of the national living wage also intensifies the need for a greater focus on progression given the likelihood of wages ‘clustering’ around the NLW floor of £7.20 per hour which is required to be paid for those employees who are 25 years and older.

## RECOMMENDATIONS

We make the following recommendations for encouraging a focus on progression in employment and skills systems.

- Local business support services should strike **progression agreements** with local employers. These would be tripartite deals between local business support services, employers and employees, whereby an employee who completes an identified course or qualification would be guaranteed progression, in the form of a pay rise, a promotion, or some other form of career progression. This would be a ‘something for something’ deal, with employers receiving

additional funding for skills training in exchange for guaranteeing progression. It would ensure that public spending on skills supports progression, and it would bring a test of learner and employer demand at the micro-level.

- Our proposed **personal training credit would provide additional targeted support for low-paid, low-skill workers to invest in their skills**. Adults in low pay, and without an NVQ level 3 qualification would receive an annual entitlement to £700. We know that participation in learning is lower among adults with low skill levels, those who left school earlier, those in lower socioeconomic groups, and those in lower-paying occupations (NIACE 2015). Government should seek to boost participation among these groups. This should involve targeting communications towards adults who are in low-paid work through using HMRC real-time information data on income and DWP data on universal credit claimants. This communication should highlight the adult's entitlements under the personal training credit, and the potential benefits of upskilling.
- There should be greater support for adults for whom low skills is a significant barrier to accessing sustainable employment. Applicants for JSA and adults who are placed in the ESA Work Related Activity Group should **undergo a thorough skills diagnostic to identify skills gaps**. Jobcentre Plus work coaches should work with jobseekers to address any basic skills gaps, and to identify any training required to support them to progress into work and in to a chosen career. Jobcentre Plus work coaches should work with jobseekers to invest their personal training credit. In addition to the £100 basic entitlement, and the £200 for those without an NVQ level 3, DWP should contribute up to £300 towards training jointly identified between the jobseeker and their work coach, giving most jobseekers £600 a year to invest in training.
- Beyond helping people in to work, **welfare to work services should focus on supporting people to progress in work and build sustainable careers**. Funding for the Work and Health Programme, and subsequent welfare to work programmes, should be based not just on sustainable job outcomes, but on progression and pay in work. This would incentivise providers to offer post-employment support to those who have entered work, encouraging and supporting them to develop their skills in order to progress and improve their pay. This might include provision of advice on training opportunities, as well as the provider potentially co-investing in training along with the individual using their personal training credit.

## 4.

# GOVERNING THE SYSTEM:

## INCREASING THE AVAILABILITY OF HIGH-QUALITY SPECIALIST VOCATIONAL PROVISION

In this chapter we argue that our vision of a new national mission to improve workplace performance and progression should be supported by improvements to the governance of the adult skills system at the sectoral and local levels to coordinate action across industries, to ensure high-quality provision and drive collective commitment to skills and productivity. These institutions would be responsible for integrating the government's objectives around both skills and industrial strategy.

### 4.1 THE LACK OF HIGH-QUALITY VOCATIONAL PROVISION

The UK suffers from a lack of high-quality vocational education and training. Over the last three decades, successive reforms have promoted an employer-led skills market, whereby decisions on training have been left to individual employers acting in their narrow interest in their own firm-specific needs, within a framework set by the state. The assumption has been that, with the right incentives in place, their decisions would help drive up the quantity and the quality of training, for the benefit of employers, employees and the economy as a whole.

There is growing evidence that this approach has failed. Significant increases in the levels of qualification among the working-age population have not led to improvements in productivity or in pay. Since the Leitch review in 2005, the significant improvements in qualifications have not been matched by improvements in economic outcomes. Leitch himself warned of this risk:

*'Crucially, however, these ambitions will not deliver economic benefits unless they are based on economically valuable skills that are effectively used in the workplace.'*

Leitch 2006

**The adult skills system is too often failing to deliver economically valuable skills, and employers are too often failing to use them in the workplace.** In this chapter we examine how we can improve the quality of vocational education so that it meets the needs of adults, employers and the wider economy, and how we can support skills utilisation.

### 4.2 WHY THE SYSTEM IS FAILING

There are a number of factors that help explain the failure of the employer-led skills market approach.

### **Weak and poorly articulated employer demand**

Demand for skills from employers is weak and poorly articulated. Our economy suffers from weak sectoral institutions. In much of Europe, strong sectoral institutions help to drive collective action from employers. They help to identify, articulate and indeed stimulate demand for skills from employers.

England's skills system has become increasingly employer-led in recent years. In this context, the absence of strong sectoral institutions is a significant problem. The system is responding to individual employers, rather than sectors, with much of the training provided being job- and firm-specific, and lacking strategic direction.

### **Reliance on central government direction and lack of local flexibility**

In the absence of strong and clearly articulated employer demand, training providers have increasingly come to rely on the funding and assessment criteria set by central government to shape their provision. While these criteria are well intentioned, they have incentivised providers to focus on delivering high volumes of relatively low-level courses, many of which have poor labour market outcomes.

As these formulas are set by central government, they are neither responsive to the needs of employers, nor to the needs of local areas. The government's apprenticeship reforms also aim to make the system more employer-led. Groups of employers will design the apprenticeship standards and content, and individual employers will then make decisions on how to spend their apprenticeship levy funds. However, the system will not provide local areas with the funding or powers necessary to shape provision to meet local needs.

### **Lack of clear career pathways and high-quality information for potential learners**

The assumption underlying the skills system is that the choices of individual learners will drive up standards of provision. For this approach to work, the decisions of actors would need to be informed by high-quality information. However, there is very poor provision of information, advice and guidance for learners and potential learners. There is also a lack of high-quality labour market information on the outcomes of courses that could be used to inform commissioning and learner choice. This is a particular challenge given the complexity of the adult education system and the lack of clear and comprehensible career pathways.

### **Strong sectoral institutions**

The absence of strong sectoral institutions in the UK means that there are few organisations able to coordinate action across industries and drive collective commitment to skills.

In the absence of such institutions, providers frequently seek only to 'match' demand for individual employers, focusing on narrow job- and firm-specific skills, rather than on the wider vocational skills and knowledge that can help an individual build a career. The absence of sectoral bodies also provides a problem of collective action; employers may be less willing to invest in training their staff if their competitors are not.

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### Sectoral institutions in Denmark

Denmark has strong and well-established institutions to oversee the continuing vocational education and training (VET) system.

While the Ministry of Education is responsible for approving new VET qualifications and setting the overall rules of the VET system, national trade committees (Faglige Udvalg) play an important role in shaping and governing the system. There are over 100 national trade committees across different industries.

The national trade committees decide the content, structure, duration and evaluation of training in their industry. They also work with the Ministry of Education to design regulations for VET programmes. They aim to ensure training is high quality and that it meets the needs of employers and the economy.

The Danish system is based on social partnership, with extensive involvement of social partners – government, employers and trade unions – at all levels of the system: local, sectoral and national. This helps ensure that the system meets the needs of both employers and employees. Employers and employees are equally represented on the national trade committees.

In addition to the national trade committees, the Advisory Council for Adult Vocational Training (Rådet for Voksen – og Efteruddannelse) oversees the adult VET system, including the development and quality assurance of training. It advises the Ministry of Education and 11 sector-based continuing training and education committees. They provide assessments of skills needs, and advice on training provision and funding.

There are also regional growth forums (Regional Vækst Fora) in the six regions that aim to bring together the Ministry of Economics and Business Affairs, the Danish Enterprise and Construction Authority, education and training providers and regional and local authorities. They examine future skills demand and the education system, and seek to boost skills development and competitiveness.

Participation in continuing vocational training (CVT) is far higher in Denmark than in the UK. Employers spend over twice as much per employee on CVT (Eurostat 2010).

Source: Peters et al 2010

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The weakness of sectoral bodies in the UK contrasts with other advanced countries.

In seeking to support the development of strong sectoral institutions, government should learn the lessons from existing sectoral institutions, most notably the sector skills councils.

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### Sector skills councils and industrial partnerships

Sector skills councils (SSCs) are employer-led, UK-wide organisations that oversee the skills system for specific industries. Their aims include:

- identifying and defining skills needs for their industry
- improving learning supply and reduce skills gaps
- increasing skill level among the existing workforce
- supporting employers in developing apprenticeship standards – though this role is now carried out by Trailblazers.

There are currently 21 SSCs across the UK, representing around 90 per cent of the UK workforce and working with 550,000 employers. There are also two industry training boards; one in construction (CITB) and one in engineering construction (ECITB). These organisations are statutory skills bodies which collect a levy from members to invest in training grants. SSCs were intended to make the UK skills system more employer- and demand-led. However, when it came to publicly funded education and training provision, there was a tension between the interests and priorities of the state and employers, with many employers involved in the system seeing SSCs as more state-driven than employer-led (Payne 2007). A further criticism was that SSCs offered very limited opportunity for employee voice.

The original intention was for government to provide initial funding, but for SSCs to then become self-sufficient, based on employer contributions. However, most remained heavily reliant on government grant funding. As a result, many sector skills councils were relatively small and struggled to undertake their responsibilities. In 2007, Skillsmart Retail had just 28 employees (ibid). This was scrapped in 2012, with SSCs now having to secure funding by bidding to government and raising money from employers.

SSCs were intended to be employer-led, and to engage extensively with employers across their industry. However, while most achieved decent levels of engagement with larger employers, they all experienced significant challenges in engaging with SMEs.

SSCs were previously licensed by the UK Commission for Employment and Skills until it was disbanded. The Federation of Industry Sector Skills and Standards represents and supports the SSCs.

An evaluation of SSCs in 2007 found that their reliance on state funding, inadequate resources, low staffing levels for what they were expected to deliver, and weak employer buy-in were ‘distinctly reminiscent of the problems faced by earlier voluntary sectoral bodies in the UK’ (ibid).

More recently, as part of the Employer Ownership Pilot, industrial partnerships (IPs) have been established in eight sectors identified as strategic priority areas. IPs seek to promote a more industry-led strategic approach to skills in each sector. The partnerships are co-funded by government and major employers, with government investing £131 million in the initiative.

Sources: Payne 2007, Unionlearn 2014

There remain some examples of strong sectoral institutions in the UK, including the Engineering Construction Board.

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### The Engineering Construction Industry Training Board

The Engineering Construction Industry Training Board (ECITB) is the statutory skills body for the engineering construction industry. A non-departmental public body sponsored by DfE, ECITB works with employers and government to attract, develop and qualify personnel across a wide range of craft, technical and managerial disciplines. The ECITB includes employers, clients, trade unions and trade associations.

The ECITB exists to address a market failure in training provision within the industry. High levels of self-employment, high turnover and labour mobility, and fear of competitors 'poaching' staff act as significant disincentives to train staff.

The ECITB addresses this through the operation of the industrial training levy. It is collected from 'in-scope' employers and reinvested back into industry in the form of training grants and products and services required by the industry. The levy for 2017–2019 is set at 1.2 per cent of total labour payments in respect of site workers and 0.14 per cent of total labour payments for offsite workers. Smaller businesses are exempt. Levy rates are agreed by industry through a consensus process every three years, with 78 per cent supporting the proposed levy rate at the last review. This collective approach ensures a collective commitment to training, creates a level playing field and ensures that all sizes of company have access to the training they need.

Employer-led, the ECITB receives no public funding and invests approximately £30 million of levy funds each year to enhance skills across the industry. The levy is used to support employers train and upskill their workforce to industry standards, develop qualifications and courses to meet employer needs including in transferable skills; and accredit and regulate a network of approved training providers. ECITB undertakes a number of other functions.

- **Regional operations:** ECITB has regional account management teams working with employers regionally to identify skills needs and appropriate training interventions, and regional heads of skills strategy working with local government, training providers, schools and colleges.
- **Qualifications and training:** ECITB develops, maintains and accredits qualifications and occupational standards for the industry. It regulates a network of training providers, ensuring high-quality training is delivered in areas required by industry and standards are maintained.
- **Awarding and accrediting:** ECITB is accredited as an awarding organisation in England, Scotland and Wales.
- **Policy, engagement and intelligence:** ECITB works closely with policymakers nationally and regionally to articulate skills needs

of the industry. It monitors labour market trends in the industry, which informs grant investment and training design.

Source: [www.ecitb.org.uk](http://www.ecitb.org.uk) and David Nash, head of policy at ECITB

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In the absence of strong sectoral institutions, central government has ended up playing a significant role in shaping provision. Providers have responded more to the funding and assessment criteria set by central government than the needs of employers. The government's reforms to the apprenticeship system aim to make it more employee-led. However, they risk aggravating the problem by making it more focused on the needs of individual employers rather than of wider sectors (see Dromey and McNeil 2017).

The government's efforts to build an 'employer-led' system will work better in sectors where there is already a strong sense of occupational identity and a commitment to train up the next generation (Pullen and Clifton 2016). In sectors such as engineering or automotive and aerospace, there are a number of large employers with a good understanding of skills needs, a collective commitment to investment in skills, and strong sectoral institutions. Here, employers are likely to come together to design apprenticeships that are valued by employers and meet the needs of learners, giving them not just job- and firm-specific skills, but the wider skills they need to succeed in the industry.

However, in sectors which lack such occupational formation, and with weaker collective commitment to skills, employers are likely to seek to recoup their apprenticeship levy funds through training that is high volume, low level, low value and firm specific.

The government's industrial strategy green paper highlights the importance of having 'the right institutions in place – at both national and local level – to identify emerging areas of strength, and develop policies and targeted investments to support them' (ECITB 2017). The Labour Party has called for a council modelled on the Automotive Council to be created in each strategic industry (Labour Party 2017). However, in order to address the failure of supply-side policy on skills to deliver significant productivity improvements, this needs to be more effectively linked with efforts to boost employer demand for and utilisation of skills. We therefore argue that the institutions governing and delivering skills and industrial strategy need to be one and the same.

#### **4.3 SUPPORTING STRONG SECTORAL INSTITUTIONS**

The adult skills system should be governed by strong and sustainable sectoral institutions. These institutions should not just oversee the training system for their industry; they should seek to drive a collective commitment to skills, improve workplace performance and boost productivity. These institutions should be the same institutions responsible for driving through the industrial strategy.

Government should step in to support the growth of strong sectoral institutions, and then step back to allow them to govern the adult skills system, so that it genuinely meets the needs of employers, employees and the wider economy.



## The role of sectoral institutions

- **Identifying and articulating demand** – revamped sectoral institutions should use both their strong links with employers and high-quality research to identify current skills demand within their sector, and provide forecasts of future demand. They should use this demand to inform training design.
- **Designing career pathways and training content** – under the government’s reforms to apprenticeships, standards and content will be designed by groups of employers in a sector known as ‘trailblazers’, and signed off by the Institute for Apprenticeships. Sectoral institutions should be transferred responsibility for designing not just apprenticeships, but all vocational training, including governance of standards across apprenticeships and T-levels, as well as other college- and work-based qualifications within their career pathway.
- **Introducing licences to practice** – comparatively few roles in the UK have licences to practice; that is, established qualifications that are required to operate in a certain role or industry. Sectoral institutions should be able to extend or introduce licences to practice where it would improve standards and benefit customers.
- **Overseeing awarding bodies** – in some sectors there are many competing awarding bodies, which can lead to confusion and undermine quality. The government plans to rationalise this system, allowing only one approved T-level qualification in each occupation. Strong sectoral institutions should be responsible for granting the licence for this, and deciding which awarding body is responsible for accrediting and assessing qualifications in their area. They should also be entitled to opt to become an awarding body themselves. The latter could provide an additional revenue stream to support the work of the institutions.
- **Optimising the apprenticeship levy/skills and productivity levy** – while the government should take action to ensure that employers across all industries are investing in the skills of their workforce, sectoral institutions should be able to adapt the apprenticeship levy or our proposed skills and productivity levy to suit the specific needs of their sector. Where there is a need for greater collective investment, sectoral institutions should be permitted to increase the rate of the levy in their industry beyond the minimum level.
- **Investing apprenticeship levy underspend** – it is likely that many employers will not spend their full allocation of the apprenticeship levy, with unspent levy funds running into hundreds of millions of pounds. The same would be true of the skills and productivity levy. Sectoral institutions should be allowed to retain unspent levy funds from employers in their industry, subject to a maximum amount, and to invest them in strategic priorities.
- **Bidding for additional funding** – under the apprenticeship levy, employers will have their contributions topped up by government with an additional 10 per cent. Instead of making this universal for employers, public spending should be targeted where it is most needed and where it could make most impact. Sectoral institutions should be able to bid for additional funding for their sector, either to match employer levy funds, or to spend on strategic priorities. This

would enable government to focus funding on priority areas such as low-skill, low-pay, low-productivity sectors like retail, hospitality or social care, or sectors where the UK has a competitive advantage that could be enhanced, such as automotive and aerospace manufacturing. Government could strike deals with sectoral institutions, making the additional funding conditional based on certain agreed outcomes.

- **Boosting job quality** – skills policy should not be delivered in isolation. In order to ensure that improvements in skills are used effectively in the workplace, they need to be accompanied by efforts to support skills utilisation, drive innovation, and improve job quality and business performance. As with our proposed Productivity Commission, sector institutions should therefore have the dual role of boosting skills and driving productivity in their sector, in line with the government’s industrial strategy.

### **The composition of sector institutions**

Sectoral institutions should be social partnership organisations. A model more commonly found in other western European countries such as Germany and France, this describes the practice of groups such as employers, employees, civil society groups and trade unions cooperating to achieve a mutually agreed goal. These institutions should give employers a stronger collective voice on training within their sector, and represent other interests too, including SMEs and government.

Sectoral institutions should represent the broad range of employers within their sector, including SME employers. In the current system, the trailblazers who design apprenticeships have limited representation and involvement of SMEs. Sectoral institutions should be required to engage and involve SMEs in their sector extensively, to ensure training meets their needs. Given the difficulty experienced by SSCs and trailblazers in engaging with SMEs, sectoral institutions should be able to provide remuneration for representatives of SMEs that sit on the body.

Employee and learner voice should play an important role in the skills system and in sectoral institutions. While the interests of employers and employees will often overlap in terms of ensuring high-quality training that boosts productivity and supports people to progress, they will not always be identical. While employers may focus on job- and firm-specific skills for example, employees would have an interest in ensuring that training offers wider vocational skills and knowledge that will help them progress. Reformed sectoral institutions should therefore have equal representation for employers and employee to ensure both are able to shape training provision. The exact form of representation would vary by sector, but this should include trade unions as well as professional associations where they are present.

There should also be some representation for government on sectoral institutions, in the form of the Department for Education and the Department for Business, Energy and Industrial Strategy. This would help ensure accountability for the use of public funds, and to help feed back to central government.

Where appropriate, sector institutions should also include representatives of consumers or service users. For example, sectoral institutions overseeing care should include representatives of care recipients, and institutions overseeing childcare should include parents.

Sectoral institutions should, where possible, build on existing organisations, such as sector skills councils. The Productivity Commission should support the development of sectoral institutions, and once established, each should be represented on the commission. Government should engage with trade bodies in establishing sector institutions.

Sectoral institutions should be national institutions, but should be regionally led where appropriate. Where there is an industry with a particular geographical concentration or clustering – for example oil and gas in Aberdeen – the institution should be based in that area.

### **Funding sectoral institutions**

A pilot of this approach could be conducted in a small number of sectors, for example using funding from the £40 million announced at the budget for the trialling of different approaches to supporting adult learning (BEIS 2017).

As with sector skills councils (SSCs), sectoral institutions should be entitled to raise funding from their members on a voluntary basis. However, given the failure of both SSCs and local enterprise partnerships to raise sufficient resources to meet their needs, both should have access to other income streams. This could be provided through allowing sectoral institutions to retain 25 per cent of unspent skills and productivity levy funds from employers within their sector. This would mean that the less employers within a sector invest in training, the more resources would be available to their sectoral institution to support training.

Strong sectoral institutions would be distinct from sector skills councils, and they would learn from the weaknesses and limitations of these bodies.

- While sector skills councils were dominated by large employers in the sector and had little or no employee voice, strong sectoral institutions would be required to demonstrate extensive engagement with and involvement of SMEs, and there would be a strong employee voice, with representation from trade unions.
- Sector skills councils were largely government funded, and attempts to secure employer contributions had very limited success. This left them both reliant on government and chronically underfunded. Strong sectoral institutions would be funded through a top-slice of the skills and productivity levy, giving them some independence from government, and a reliable funding stream to make a real difference in their sector.
- While sector skills councils were focused nearly exclusively on skills supply, strong sectoral institutions would also seek to drive a collective commitment to skills, and to boost demand in their sector. They would focus on skills utilisation, rather than just skills supply.

### **Driving collective commitment from employers**

Forming strong sectoral institutions would be in the interests of employers. These institutions would help employers co-design the skills system, and they would support a collective commitment to skills and

productivity. Offering employers the opportunity to collectively design content and training, as well as to bid for additional public funds would provide a strong incentive for employers to form such bodies. However, government may also need some additional incentives in order to encourage sectors to establish such institutions, and to ensure a basic minimum of standards.

We propose that **government should seek to use sector deals to establish and support the development of these sectoral institutions where they do not exist**. For sectors that do not establish effective sectoral institutions that meet the basic criteria set out above, we propose that the Productivity Commission should have the power to withhold apprenticeship levy/skills and productivity levy funds from employers. This will act as an incentive for sectors to establish effective institutions, and a lever to intervene in cases where this does not happen.

The introduction of sector institutions would ensure that instead of the skills system being shaped by government funding rules and by the isolated decisions of individual employers, it would be shaped instead by a shared commitment of employers across and industry, and by employees too. Instead of leaving it to providers to match employer demand, it would help drive a collective commitment to skills across a sector. By bringing stakeholders together and representing a broad range of different interests, it will help ensure the skills system works for employers, for employees and for the wider economy.

### **A devolved system, driven by effective local institutions**

The government is seeking to devolve adult skills policy to local areas. The adult education budget (formed of non-apprenticeship adult skills budget, Community Learning and Discretionary Learner Support) is being devolved to combined authorities and London as part of devolution deals. It is hoped that transferring the adult education budget will allow local areas to reshape provision so that it better meets local needs and priorities, and drives local growth and productivity (SFA 2016).

However, the adult education budget that is being devolved has been reduced significantly in recent years, and it does not include funding for apprenticeships. This will limit the ability of local areas to meet local needs and to reshape the skills system so that it can maximise local growth (Dromey and McNeil 2017).

There is also a question over the extent to which local areas have the institutions in place to make the most of the devolution of skills. In addition to the absence of strong sectoral institutions, England has relatively weak local institutions to promote investment in and utilisation of and demand for skills.

Regional development agencies (RDAs) were introduced in 1998 to lead economic development. The Regional Development Agency Act set out five statutory purposes for RDAs (BERR 2007):

1. to further economic development and regeneration
2. to promote business efficiency and competitiveness
3. to promote employment

4. to enhance the development and application of skills relevant to employment
5. to contribute to sustainable development.

In their later years, RDAs were responsible for developing a regional skills strategy as part of their integrated regional strategy. This included information on regional skills gaps, future skills needs, and economic development priorities, as part of a strategy for investment in skills (Schmuecker 2011).

A review of RDAs and LEPs found that RDAs benefited from clarity of purpose, regional focus, and a single pot of funding to target local priorities. However, the influence of central government on RDAs was found to be excessive and insufficiently joined-up. In terms of scale, they were effective in filling the void between national and local level, but their wide geographic scale made them feel remote to many, and they covered local areas which often did not have strong economic connections (Healey and Newby 2014).

An evaluation of RDAs in 2009 found that they generated regional economic benefits which exceeded their costs (BERR 2009).

The Coalition government scrapped RDAs and replaced them with local enterprise partnerships. LEPs are voluntary partnerships between local authorities and businesses, responsible for identifying local economic priorities, supporting local economic development, and leading job creation and local growth. Intended to be more business-led than RDAs, and to correspond more to smaller, more meaningful economic geographies, there are now 39 LEPs across England, covering every area of the country (Ward 2017).

While some LEPs have been effective, they have limitations.

- Although there are benefits of being business-led, LEPs have struggled to engage with SMEs, and employees are not represented.
- LEPs have suffered from having limited budgets which constrained their ability to deliver. This has been alleviated to a certain extent, but they still remain less well-resourced than the RDAs they replaced, and they lack single-pot funding (Healey 2014).
- Their purpose and accountability are vague (Healey 2014, Broadbridge and Raikes 2015).
- LEPs vary in size, with many being too small to constitute coherent economic geographies, and some overlapping (Healey 2014).

Many local areas have set up work and skills boards to drive economic development locally. The Greater Manchester Skills and Employment Partnership aims to provide strategic leadership and oversight of the skills and employment landscape in the city-region. Its membership includes:

- the Greater Manchester Portfolio Holder for Skills, Employment and Worklessness, and four GM elected members nominated annually by the combined authority
- two representatives from the GM LEP
- a representative from the GM Chamber of Commerce
- GM Learning Providers Network

- Jobcentre Plus
- trade unions.

The government's industrial strategy green paper highlights the importance of national and local institutions (BEIS 2017). Government should seek to build on existing institutions where these are in place, but ensure that they have a sufficiently broad remit, and broad-based representation. In order to make the most of the devolution of adult skills, local institutions should be developed to oversee adult skills and to drive productivity improvements in their area.

### RECOMMENDATION

**Local enterprise partnerships should be democratised, reformed and repurposed as local productivity partnerships to govern the skills system locally.**

Local productivity partnerships should bring together local government, providers and trade unions to govern the skills system locally, and they should be given a renewed focus on productivity and workplace performance.

Local productivity partnerships should be social partnership institutions, comprising representation from:

- **Local government** – representatives from local authorities, and the combined authority where present, to ensure accountability in the use of public funding
- **Employers** – representatives of local employers, including from the LEP, from local chambers of commerce, local SMEs and a local rep from the Federation of Small Businesses; in order to support Local Productivity Networks to engage with harder to reach employers, they should be able to provide remuneration for SMEs taking part
- **Trade unions** – representatives of trade unions including the TUC regional office and unions with a significant presence in regional industries.

Local Productivity Networks would provide strategic oversight of the adult skills system, and would have a number of responsibilities.

- **Commissioning local provision through outcome agreements** – local productivity partnerships should be responsible for investing the adult education budget, as well as the regional skills fund – the funding devolved to local areas through top-slicing the skills and productivity levy. This should be done through outcome agreements. Based on high-quality local labour market information, outcome agreements would establish local priorities, the outcomes that are being sought, and mutual responsibilities for delivering these. While outcomes would vary according to the local area, they should include a focus on supporting pay, progression and productivity locally. Local productivity partnerships should be able to vary funding for providers based on performance against the agreed outcomes. More detail on outcome agreements is set out in chapter 5.
- **Co-investing with individuals** – local productivity partnerships should be able to co-invest with adults in their learning, by contributing to personal training credits. This could allow areas

to focus investment on learners who could most benefit from participation in training, by targeting adults in particular geographies or with particular characteristics.

- **Tailoring local skills provision** – using high-quality local labour market information, local productivity partnerships should be able to tailor career pathways, and to identify priority pathways for the local economy.
- **Integrating employment support and skills** – low levels of qualifications are a significant barrier to employment for many people. The proportion of adults on jobseeker's allowance and employment support allowance in England with no qualifications is four and six times higher than among those in work (IPPR analysis based on ONS *Labour Force Survey*). Local productivity partnerships should seek to integrate skills provision with welfare to work services locally, ensuring that jobseekers for whom qualifications are a barrier are supported to upskill.
- **Ensuring high-quality information advice and guidance** – high-quality information, advice and guidance (IAG), informed by labour market information, is important to ensuring adults make informed decisions on learning and career options. Current provision is limited and primarily delivered online. Local productivity partnerships should be responsible for ensuring the provision of high-quality IAG.
- **Assessment and inspection** – as well as tailoring local provision, local productivity partnerships should be responsible for monitoring standards, and working with local providers to drive up quality.
- **Commissioning business support** – beyond supporting investment in skills, local productivity partnerships should help promote demand for and utilisation of skills in their local area through investing in business support services.

Local productivity partnerships should be based on coherent economic geographies; at the combined authorities where they exist, or at LEP-level where they do not, though existing LEP geographies may have to be rationalised (Healey 2014).

#### ***Funding local productivity partnerships***

RDAs were well-funded, receiving £1.76 billion of public funding in the last year before they were scrapped. LEPs were originally intended to be wholly employer-funded, but they struggled to raise sufficient resources to support their work. Following the Heseltine Review, LEPs were given £250,000 each per year to devise their local economic strategies and create the foundations for their implementation (Heseltine 2012). They have also been able to bid for various government funds including the Regional Growth Fund, the Growing Places Fund, the Single Local Growth Fund, and they have also delivered EU structural and investment funding (Ward 2017). The lack of a single pot of flexible core funding has limited the impact of LEPs (Healey 2014).

Local productivity partnerships should be funded through three mechanisms:

- **the regional skills fund** – worth £1.1 billion, this would provide a core flexible funding pot for local productivity partnerships (as it would be distributed in proportion to the number of adults with low skills, the regional skills fund would focus resources where it is most needed)

- the ability to **retain 25 per cent of unspent levy funds** from businesses in their region, with 25 per cent retained by sectoral institutions, and the remaining 50 per cent used by DfE for apprenticeship funding at non-levy paying firms
- a portion of the **Ofsted budget** given they would take over responsibility for inspection of adult skills provision (the Ofsted budget for 2015/16 was £149 million (Ofsted 2016)).

#### 4.4 INTEGRATING SECTORAL AND LOCAL INSTITUTIONS

Sectoral and local institutions should work closely together to ensure that skills and industrial policy is both sectorally focused and locally tailored.

Wherever possible, national sectoral institutions should have a regional focus to support the specific needs of employers in their sector in different regions. This would be a similar approach to that of the Engineering and Construction Training Board (ECITB), which has a head of skills strategy and a team of account managers for four regions (Scotland; the North; Wales, Midlands and East of England; and the South).

Where there are particular concentrations or clusters of industries, these should be recognised in terms of the governance of national sectoral institutions. Where they are heavily focused on one region, the sectoral institution should be based in that area.

The role of local productivity partnerships should involve tailoring nationally designed career pathways to local needs, as states do in the US.

#### Supporting local demand for skills

Compared to other advanced economies, there is relatively little state-provided business support in England.

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#### Business Link in England

Business Link was a ‘one stop shop’ advice and guidance service for employers in England, targeted in particular at SMEs. Developed by Michael Heseltine, the then trade and industry secretary, Business Link was rolled out from 1992, with 89 Business Link partnerships in place by the end of 1996 running 240 advice centres across England.

The service provided diagnostic support, as well as links to specialist support to address identified problems. In the period from 1997–2002, Business Link was used by one in three businesses (Mole et al 2008).

An evaluation conducted by Warwick Business School found that the high profile of the service was an important factor in boosting take-up of the service. It also found that the segmented approach, with a focus on younger-growth firms, was effective. In terms of outcomes, the study found no significant impact from ‘other’ assistance, but did find positive and significant employment growth from intensive assistance (ibid).

An evaluation conducted for government found Business Link had a significant positive impact. It found that Business Link increased employment growth by 2.4 per cent among users of the service, and boosted productivity. The improvements in performance were found



not to be due to competition based on price. Again, intensive support was found to be the most effective. Forty per cent of businesses that received intensive support said they achieved business outcomes that they would otherwise not have achieved, compared to 25 per cent of firms that received other support. The evaluation estimated that Business Link generated additional annual GVA of £697–753 million (a figure it regarded as a conservative estimate), from an annual cost of £300 million (BERR 2006).

The regional advisory service was scrapped in November 2011 along with the RDAs that funded the service. The website and telephone helpline were left in place, and local support was to be provided by LEPs. The standalone website has now been migrated onto the gov.uk website.

A recent evaluation of the helpline and webpages conducted for the Department for Business, Innovation and Skills found that there is still considerable demand for business support, particularly from newer businesses and those looking to grow. However, the gov.uk website is used by only 8.5 per cent of SMEs each year, compared to the 27 per cent that used the old Business Link website. While the reach is small, the evaluation suggests the current service provides good value for money, with an estimated £17 million of additional GVA being generated. The return on investment for the helpline is estimated to be £8 for every £1 invested. Among non-users of the helpline, half were unaware of the service (BIS 2014).

Sources: BERR 2006, Mole et al 2008, BIS 2014

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The experience of Business Link offers some lessons on how to deliver effective local business support.

- First, the service provided **value for money**. The evaluations of the programme found that it was successful in engaging with employers and in supporting them to make improvements in their business, with employment, productivity and growth increasing as a result.
- Second, **visibility and presence matters**. Business Link achieved a very high penetration rate, with one in three businesses accessing its support. Following the scrapping of the advisors, and the move to the telephone helpline and website, awareness and use of the service had decreased significantly.
- Third, **intensive support is the most effective**. Evaluations found that businesses that received more intensive support and advice were much more likely to have made improvements to their business as a result of the support.

### RECOMMENDATION

Local productivity partnerships should deliver or commission local business support services to work with employers and drive up demand for, investment in and utilisation of skills. The local business support services should have the following responsibilities.

- **Skills brokerage** – local business support services should reach out to employers in order to encourage them to engage with the skills

system. They should support them to identify skills needs, draw up skills plans, and support skills utilisation. Brokerage should focus on engaging with low-skill, low-productivity, low-pay sectors; sectors with low levels of progression; and on SMEs who are less likely to have internal HR capacity or training plans and budgets.

- **Supporting investment in skills** – local business support services should aim to support and encourage local employers to use their apprenticeship levy/skills and productivity levy funds, and to invest in the skills of their workforce.
- **Supporting workplace innovation** – in order to ensure that skills are used effectively in the workplace, local business support services should work with employers to support workplace innovation, high-performance working and job-redesign.
- **Supporting management capacity** – HR and management capacity are important for effective skills utilisation. Yet there is evidence that the UK struggles by comparison with other advanced economies in this area (Lawton 2009). Business support services should commission or deliver management support – paid for through skills and productivity levy funds – with a focus on skills utilisation.
- **Supporting trainer capacity** – internal training capacity has been described as the ‘missing piece’ in the jigsaw of skills policy (Keep 2015). Skills policy in recent years has encouraged a transactional relationship, where the majority of apprenticeship training is bought in from external providers, rather than one where training is designed by the firm as part of a wider workforce strategy to boost skill level and skill utilisation. Business support services should seek to boost internal capacity by providing training to trainers and managers within firms, with employers able to pay for this through skills and productivity levy payments.
- **Working with sectoral institutions** – local business support services should work with sectoral institutions to ensure that local employers can access support that is tailored to their specific needs, taking into account both the local market and the wider sector.
- **Progression agreements** – business support services should also negotiate ‘progression agreements’ or ‘job quality deals’ with local employers.

#### 4.5 A CAREER PATHWAY APPROACH TO ADULT EDUCATION

Unlike many advanced economies, the UK does not have a career pathways approach to adult skills and workforce development. In our liberal labour market, adults are required to make their own decisions on learning and career options, based on informal knowledge and experience. For most careers, there is not a prescribed pathway setting out the qualifications and experience needed to enter a specific role. This contributes to the pervasive problem of workers being unable to progress out of low-paid work into mid-skill and higher-skilled jobs.

As a result of all of these factors, there is very little clarity or knowledge of possible career paths. For adults, there is a need for:

- clearer communication to potential adult learners of the qualifications they need to obtain in order to demonstrate proficiency in a particular occupation and advance in their career
- greater employer involvement in adult learning to ensure that it is relevant and of value in the labour market
- support for diverse groups of adults to access training and move into progressively higher-skilled employment.

The approach in the UK contrasts with many advanced economies which pursue a more structured career pathway approach to adult skills.

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### **Career pathways in the US**

In the US, federal and state-level government has increasingly adopted a ‘career pathway’ approach to adult skills and workforce development. Career pathways set out the sequence of education, training and qualifications needed to become fully proficient in a given occupation, providing greater clarity to learners of the link between training and employment (Van Horn et al 2015).

This is supported by employers, who are heavily involved in the development and delivery of pathways. Pathways also differ between states, allowing provision to be tailored towards those sectors and occupations that are in demand and undersupplied.

Pathways are designed such that all adults can access them, irrespective of prior work experience and qualifications. This is achieved through provision appropriate to the needs of diverse learners, such as courses that integrate occupational and basic skills for disadvantaged adults through to courses aimed at those changing careers later in life. Pathways are also set up so that each step in gives learners the capabilities to progress to the next rung on the career ladder, allowing for adults to alternate spells of progressively higher-skilled employment with further training. Adults are also supported to enter and progress through pathways by a range of integrated services, including careers advice, employment support and social security.

Source: Van Horn et al 2015, Hendra et al 2016, Maguire et al 2010

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### **The workforce skills qualification in Singapore**

The workforce skills qualification (WSQ) is Singapore’s national continuing education system, designed specifically for adult learners.

It is designed to be open to all and to support progression, so it does not have any formal academic entry requirements and it provides training from entry level to graduate diploma.

Modular provision is available in order to allow learners to address identified skills gaps. The system allows for accreditation of existing skills.

The content of the WSQ is shaped by employers, but the Singapore Workforce Development Agency provides oversight and quality assurance.

There are 30 WSQ frameworks based on different industries, with each including both foundation skills and industry/occupational specific skills.

Source: Skills Future Singapore

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Employment and skills programmes that follow the career pathway approach have been shown to lead to better earnings outcomes for learners. The WorkAdvance programme in the US provided formal training offering industry-recognised qualifications tied to occupations with good progression prospects, and lead to participants earning 14 per cent more after two years than a control group (Maguire et al 2010). A similar initiative, the Sectoral Employment Impact Study, found earnings gains of 29 per cent in the second year following completion (Hendra et al 2016).

Elements of this approach have been implemented in England. The skills for health bridging programme, for example, sets out what qualifications current health and social care support workers need to attain in order to meet entry requirements for nursing and other vocational higher education health programmes. It is valued by higher education institutions, and delivered by partner organisations in conjunction with employers in the sector.<sup>6</sup>

The pathways model, however, runs up against many of the core features in the English model of adult skills, such as the laissez-faire approach to adult education in which adults are expected to make their own decision on career paths and training opportunities with little structure to support progression. These prevent adult skills being arranged along more strategic lines.

Delivered well, a career pathways model of adult skills has the potential to solve many of the issues confronting English adult skills policy, but will require significant reform of both the institutions that govern and deliver the skills system, and the surrounding support offered to adult learners.

Ensuring the content of pathways is relevant to the needs of employers and learners is crucial in their success. The Independent Panel on Technical Education, led by David Sainsbury, made a number of recommendations in this area (Sainsbury 2016). While the panel's report and the subsequent government white paper focused on the 16–18 age group, they both have wide-ranging implications for adult education.

On standards, Sainsbury recommended that 15 pathways be developed that together constitute all technical/vocational education delivered in the classroom or via apprenticeships from levels 2 (equivalent to five GCSEs A\*–C) through to level 5 (equivalent to a foundation degree). Each pathway should be linked to particular skilled occupations (such as hair and beauty, digital or construction), and have common standards across classroom and apprenticeship routes that set out the industry-

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6 See: <http://www.skillsforhealth.org.uk/standards/item/229-skills-for-health-bridging-programme>

and occupational-specific as well as general skills required to be successful in that occupation. These standards would be developed by expert panels of professionals. At levels 2 and 3 only one body would be licensed to develop qualifications in a given pathway (in order to prevent proliferation of qualifications), while at levels 4 and 5 learners should start to specialise with occupations using a list of qualifications approved by the professional panel.

The proposed reforms will simplify the system of vocational education for learners and employers, make progression pathways clearer, and better approximate the largely successful way academic qualifications are arranged at the same levels.

What Sainsbury ultimately wants to achieve with the technical pathway model is to approximate a ‘licence to practice’ in each. Occupational licensing is a way of legislating so that all workers in a particular occupation need to have completed certain training requirements. Where they exist in the UK, they have either evolved over a long period of time with impetus from industries collectively, such as in the Chartered Professions (for example, accountancy), or are used to guarantee the wellbeing of consumers, ranging from low-level licences like food safety through to qualifications for doctors. In other countries they are far more widespread. One estimate suggests that 29 per cent of workers in the US are required to have a licence, for example, versus only 14 per cent in the UK (Humphris et al 2009).

While Sainsbury does not recommend legislated occupational licensing, he hopes that clearer pathways with strong employer involvement in setting content will mean that achievement of a particular level in that pathway becomes a de facto prerequisite for certain roles. This would be a good thing, raising standards in technical occupations, communicating to learners the worth of technical education and supporting the transfer of skills between employers. If fully implemented, with funding for non-technical qualifications and apprenticeships withdrawn, it would also end funding for vocational learning in non-technical occupations found in low-skilled sectors such as retail, where currently apprenticeship provision is often provided but at low levels and with little immediate value or opportunity for progression.

The government has pledged to implement the Sainsbury recommendations, as the ‘fundamental basis of our technical education system’ (BEIS 2017). Under its plans, 15 routes will be developed, informed by high-quality labour market information, with a two-year programme for 16–19-year-olds, with a defined route of progression thereafter. The design of the pathways will be employer-led, with frameworks for apprenticeships approved by the Institute for Apprenticeships and Technical Education. There has been less focus on how the plans would affect adult learning.

## **RECOMMENDATIONS**

**A modified Sainsbury framework for technical education should be implemented for adult learners.**

Pathways should be designed by and governed by the sectoral institutions set out above. This would ensure that they are shaped by a

representative group of employers, but with workers in the sector having an input too.

While pathways should be set and governed nationally by strong sectoral institutions, they should be sufficiently flexible so that they can be tailored to local circumstances. In developing the pathways, distinctions should be made between a common core of general and transferable occupational skills and a periphery that can be adapted to meet the needs of employers in a particular area. To ensure that pathways work both for the local area and for the industry, local productivity partnerships should work with sectoral bodies to tailor them to the needs of employers in the region.

The design of each pathway needs to take account of returners to education, who may already be proficient in some but not all of the competencies required for a particular level. Ensuring that such learners can access modular provision to fill in gaps in their skills and move into work or progress to a higher level quickly will make the pathways more efficient and more attractive to those who want to upskill or switch careers. Programmes for adults transitioning into technical education should also include the certification of existing skills – in a similar way to the workforce skills qualification in Singapore – where an employee has gained expertise on the job but not a qualification.

Pathways should go from entry-level roles through to senior roles, showing workers at every level what opportunities for progression there are, and what they need to do to get to where they want to go.

#### **4.6 INFORMING CHOICES: IMPROVING INFORMATION, ADVICE AND GUIDANCE AND LABOUR MARKET INFORMATION**

In order to maximise the impact of career pathways, they will need to be complemented by high-quality information, advice and guidance (IAG).

One of the assumptions that underlies the current system is that informed-learner choice will drive up quality of provision. Yet provision of IAG is limited and patchy. The National Careers Service, launched in 2012, primarily provides online advice, and an evaluation has shown that while user satisfaction is high, public awareness is low (BIS 2013).

Information, advice and guidance should be informed by high-quality labour market information. This should enable adults to understand:

- the roles and tasks involved in different jobs
- the demand and competition for such roles in their area
- the skills, qualifications and experience required to access the job, and how their skills, qualification and experience matches these
- expectations for pay, training and progression.

The use of labour market information to support skills and career choices in the UK is poor compared to some other advanced countries. In the US, O\*NET provides high-quality labour market information to support IAG and help match an individual's experience and interest to a suitable career. O\*NET is a vast database that provides detailed information on hundreds of occupations, including the knowledge, skills and attributes required,

what jobs actually involve in terms of tasks and activities, salary, and even job postings. The database is updated annually and sponsored by the US Department of Labor. It is used extensively by careers advisors, students, businesses and researchers. Developers are able to use O\*NET to create bespoke applications (Dromey and McNeil 2017).

The UK government has been experimenting with improving labour market information and have recently published longitudinal earnings outcome (LEO) data linking graduate employment, benefits and earnings data. However, data on outcomes for learners following further education remains patchy.

The 'LMI for all' project has produced a database of local labour market information, down to county level, in a format allowing other developers to build apps for careers guidance purposes. Similarly, IPPR's 'Where the work is' shows for local enterprise partnership areas which occupations are currently being over- and undersupplied by the adult skills system, and the salaries available, in order to inform strategic local planning around skills provision.

The absence of high-quality IAG, informed by high-quality labour market information, means that adults and employers are making decisions without sufficient information. Successive governments have increasingly moved towards a system that is employer- and learner-led, where providers are supposed to respond to clear demand from employers and to the choices of learners. Yet both employers and adults lack sufficient evidence of the quality of provision, and the outcomes associated with specific courses. In the absence of clearly defined career pathways or high-quality IAG, adults often find it difficult to identify how they progress to their chosen job and career.

Improving the quality of data used by key actors in the skills system is an important way to improve decision-making and to drive up quality. We cannot expect individuals to be able to make fully informed choices about learning unless they are equipped with the necessary information to weigh up different training options. Similarly, skills providers cannot tailor their provision to the needs of the labour market if they do not have a comprehensive understanding of how the qualifications they deliver are used in the economy.

## RECOMMENDATIONS

Government has a strong interest both in ensuring that public funding in adult education delivers value for money, and in supporting learners to make well-informed choices. In order to support this, **the labour market outcomes of training should be routinely assessed and reported in order to provide information on the returns learners can expect from different courses, and the quality of providers.**

Government should seek to link data on employment and income from DWP and HMRC to education data in order to understand labour market returns for courses and providers. DfE should make this data publicly available, and integrate it into the LMI for All project to enable app and website developers to freely use the data. Providers should be required to report this data when they advertise courses to learners and employers.

Collecting this data would have numerous benefits:

- informing the decisions of learners and employers
- informing funding decisions by local productivity partnerships
- incentivising providers to improve quality, make courses more relevant to the labour market, engage with employers and offer post-course support to learners.

There is a need for standardisation of particular data not held by government. Online job vacancy data, key for understanding local labour markets, is often poor quality and does not include basic information. A job posting standard, similar to that adopted by the government for their own vacancies, but in use by the majority if not all private-sector job vacancy websites, would lead to a huge improvement in the quality of labour market information. The government is seeking to develop a consensus on best practice regarding job posting, and to spread this (Maxwell and Appelquist 2016). Central government should exert pressure on the biggest online jobs boards to adopt good practice in vacancy adverts, with the aim of making a standard for postings statutory by 2030. This data could then be used by careers advisors to see in real time the volume of local vacancies in different occupations.

Government should run and widely publicise a ‘CV genome project’ over the coming years, which would provide a similar function to O\*NET. Recent entrants into occupations should be encouraged to volunteer their qualification and employment histories to be held anonymously in a database for use in labour market information tools. This would be continually updated and available for research purposes to better understand the granular relationship between qualifications, experience and the labour market. A pilot in certain industries could be conducted, funded through the £40 million announced at the budget for the trialling of different approaches to supporting adult learning (HMT 2017).

Our recommendations rely on the presence of a high-quality local careers advice and guidance offer, staffed by workers who not only understand labour markets and routes into particular jobs, but can also act as an intermediary between individuals and education and training providers.

#### **4.7 THE PROVIDER MARKET**

If we are to deliver a skills system that works for employers, employees and the economy, we need to address the weaknesses with the current provider market.

The adult skills system relies in large part on further education (FE) colleges, and for-profit training providers. FE colleges fulfil diverse functions: from entry level training, basic learning and GCSE retakes, to apprenticeships, A-levels and even higher education. There is also a large market of private providers, who provide the majority of apprenticeships in England. Adult skills providers have been hit hard by funding cuts in recent years, which have led to significant pressures.

While there is some good adult skills provision, much of the current provision is delivered at low-level, by generalist FE colleges, offering a broad but shallow curriculum with little by way of higher-level technical qualifications



(BEIS 2017). Rates of progression from lower-level courses to higher-level learning are often low, as are labour market returns. Comparatively few teachers in the sector are from an industry background, and many do not have teaching qualifications.

The provider landscape is shaped by the system in which it operates. Over the past 25 years, successive governments have sought to create an adult skills system that is learner and employer led. The theory has been that providers will match the needs of employers and learners, and that their choices on provision will drive up quality, with benefits for providers, learners and the economy. Yet in reality, in the absence of strong and clearly articulated employer demand, or of accurate and widely available information to guide decisions, providers have remained focused on nationally set out funding and assessment criteria (Dromey and McNeil 2017). These funding criteria are focused primarily on the qualifications that providers support learners to attain. While this makes the system relatively easy to administer, it does mean it is focused on delivering outputs, rather than the desired outcomes such as boosting productivity, increasing pay and supporting progression.

The English skills system has also encouraged a transactional relationship between employers and training providers. Under the system, providers are expected merely to match the needs of employers. In many cases, employers are simply purchasing off-the-shelf training from providers, rather than co-designing provision that is tailored to their current and future skills needs. Employers often have little or no involvement in the design and delivery of provision, and few integrate it into a wider workforce strategy. The system has been characterised by high levels of deadweight – with many employers being supported to rebadge existing training in order to access public funding.

Internal training capacity among employers in England is relatively weak. Analysis has found that the result of the system is one where employers are ‘more or less passive recipients of externally provided training services, rather than the actors who lead on design and delivery’ (Keep 2015).

The government has recognised some of the weaknesses in the adult skills system, including the lack of high-quality vocational provision. It has pledged to support the creation of new technology institutes, which could be a positive step towards addressing this gap. They have pledged to do more to stimulate provision at higher technical levels, and to ensure the infrastructure is in place to deliver this (BEIS 2017).

However, the principles underlying the system seem not to have changed. The approach remains one of a skills market, in which employers are the passive consumers of training, rather than active participants. This was evident in a recent comment by the skills minister on the new apprenticeship system:

*‘There are many exciting opportunities for agile providers to operate in this new, more market-style environment to respond to the needs of employers as the purchasers of apprenticeship training.’*

Boles 2015

## RECOMMENDATIONS

If we are to improve the quality of career learning provision, we need to **reshape the system in which providers operate, so that incentives are better aligned to deliver training which is high-quality and delivers real labour market returns.**

Both sectors and local areas should have more of a stake in the system, and more of an influence over providers. Below we highlight how the reforms already set out would help reshape the provider market towards these ends, and further reforms to the provider market that could drive up quality.

### *Improving quality and standards through local outcome agreements*

Adult learning provision should be more focused on the needs of the local economy, and the local community. Giving local productivity partnerships responsibility for commissioning local provision through collectively agreed outcome agreements will ensure a more direct link between the provision on offer and the needs of local economies.

In contrast to the current system which focuses on rewarding providers primarily based on qualifications as outputs, outcome agreements provide a different approach. These are collectively established, written agreements which identify both the skills needs of a local area, and the solutions to address them. They involve local partners – including employers and education providers – in coming together to agree the priorities for an area, the outcomes that need to be achieved, the contribution of each towards achieving these, and accountability mechanisms (UKCES 2015b).

Outcome agreements are already used in many countries, including Scotland, Tennessee and Ohio in the United States, Queensland in Australia, and New Zealand (AoC 2015).

They offer a number of potential benefits, including:

- encouraging providers to **focus on collectively agreed outcomes for learners**, rather than meeting simple output targets
- encouraging **collaboration and supporting specialisation among providers**, rather than the competition, duplication and generalist provision that characterises market-based approaches
- encouraging **providers to work closely with employers** to ensure skills are being utilised, rather than simply and passively ‘supplying’ skills into the system (UKCES 2015b)
- **supporting localism** by better aligning provision with economic need and ensuring greater accountability from learning providers to the local economic and social community (ibid)
- **maximising the impact of public funding** at a time of scarce resources (ibid)
- supporting the **delivery of local strategic industrial policy objectives** rather than just focusing on meeting learner demand.

Local productivity partnerships should seek to develop outcome agreements as the basis of local commissioning of adult education.

Based on high-quality local labour market information, these agreements should establish local priorities, the outcomes that are being sought, and mutual responsibilities for delivering these. While the specific priorities for local areas will differ, outcome agreements should include a focus on supporting pay, progression and productivity locally.

Outcome agreements should identify priority career pathways, those that offer good opportunities for progression locally but are currently undersupplied, and align with wider economic development objectives. The local productivity partnerships should agree collectively on how to provide a mix of training and employment support to deliver these pathways and achieve positive outcomes for learners, providing additional funding where new provision has to be created.

Where the adult education budget (AEB) is being devolved, local areas should develop outcome agreements to guide commissioning and how the AEB is spent. Where devolution deals are not in place, local productivity partnerships should develop outcome agreements which should form the basis of SFA funding allocations.

Outcomes from training should be tracked, in order to monitor the performance of providers against the outcome agreement, and to inform future commissioning. Over time, the system should reward achievement of outcomes and penalise partners that do not deliver.

#### ***Increasing access to high-quality specialist vocational training***

While there is an important role for basic skills provision and generalist provision, there is also a need for more high-quality, specialist vocational provision. The Productivity Commission should seek to work with sectoral institutions to identify future skills demand, and areas of acute skills shortage. These sectoral institutions should help shape the provider market to ensure future skills needs in their sector are met.

Government should seek to co-invest with industry in establishing new technology institutes and other specialist training provision offering high-quality vocational education where there is an identified need. This will reflect the benefit that sectors would receive from improving the availability of high-quality specialist vocational provision, and it would ensure DfE funding goes further. Strong sectoral institutions should be able to bid to DfE for the £170 million of capital funding which has been made available for technology institutes, matched by some financial commitment from the sector, to establish these new centres.

Government should use large-scale procurements to leverage funding for new specialist training centres to both provide skills for the project, and to build up expertise and capacity for the future. Large-scale procurement projects often include requirements on contractors to deliver a set amount of training or apprenticeships as part of the contract (Crown Commercial Service 2015). In some cases, providers also invest in training infrastructure. For example, Crossrail co-funded the Tunnelling and Underground Construction Academy (TUCA) in Ilford, and energy giant EDF have invested in local skills provision in the South West, as part of the Hinkley Point project. However, the investments delivered are

often a tiny proportion of the total value of the project; EDF invested £11 million in local skills provision on a contract worth £18 billion (EDF 2016).

Government should work with sectoral institutions on large procurement projects to identify where they can be used to deliver new specialist training centres, to support both the provision of skills for specific projects, and a legacy of skills for the future.

### ***Supporting internal capacity***

Internal training capacity is the ‘missing piece’ of the skills puzzle in England (Keep 2015). Government should ensure that skills policy avoids incentivising a transactional relationship with providers, and instead supports employers to develop and utilise internal training capacity as part of a wider approach to skills utilisation and workforce strategy.

Business support services provided at a local level should seek to boost internal capacity by providing training to trainers and managers within firms. Employers should be able to pay for this provision through their skills and productivity levy payments.

# 5. A SKILLS SYSTEM THAT WORKS FOR ALL

## 5.1 SUPPORTING INDIVIDUALS, COMMUNITIES AND INDUSTRIES TO ADAPT TO THE DEMANDS OF THE GLOBAL ECONOMY

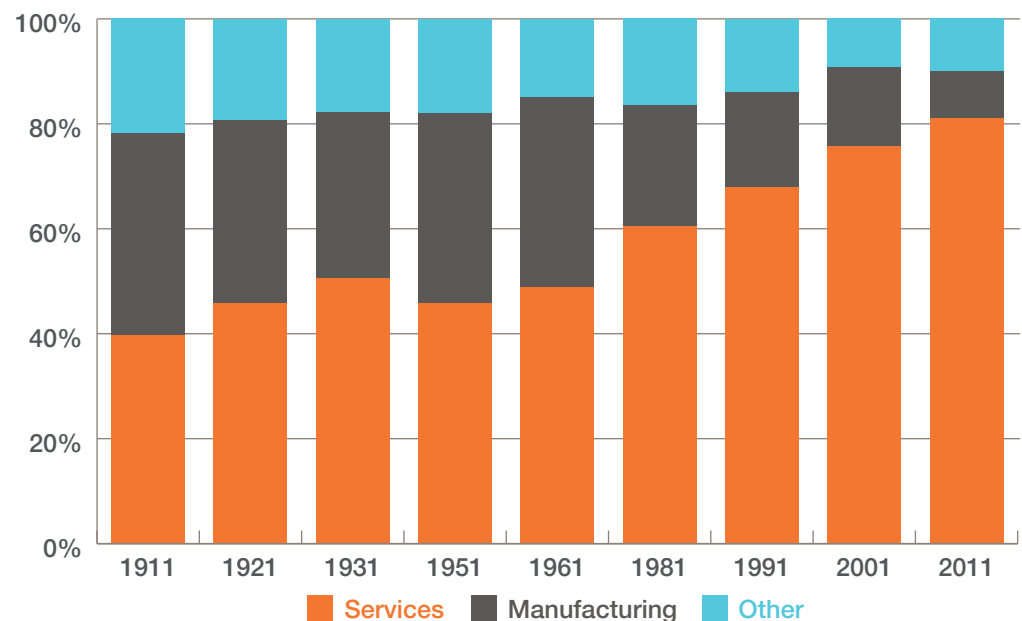
In this chapter, we set out the case for a more active approach to supporting individuals and industries to adapt to the rapid changes that are set to transform our economy and labour market in the coming years.

The UK has a poor record of supporting individuals, communities or industries to adapt to industrial change. Many people who lost their jobs as a result of deindustrialisation at the end of the last century struggled to adapt to a changing economy. A large number moved on to long-term incapacity benefits, with the legacy still being visible today: nearly every area with high rates of ESA claimants is in old industrial centres (Beatty and Fothergill 2016).

**FIGURE 5.1**

The proportion of workers in manufacturing has declined significantly since the 1960s

*Percentage of UK workers in the services, manufacturing and other sectors over time*



Source: Office for National Statistics, '170 years of industrial change across England and Wales' (ONS 2013)

This represents not just a tragedy for the individuals affected, but a lasting blight on our economy. Estimates put the cost to the exchequer from the loss of jobs through deindustrialisation in terms of higher welfare payments and lost tax revenue, as exceeding £20 billion a year (ibid). Many areas were left behind as a result of industrial change. In many cases, the stable and relatively well-paid jobs lost through deindustrialisation were replaced only by lower-paid insecure work. Many areas hit by deindustrialisation still suffer from ‘low skills equilibria’, and lower levels of productivity and pay (Dromey and McNeil 2017).

Compared to other advanced countries, the UK also has a poor record of helping industries prepare for and adapt to economic change. Manufacturing declined very rapidly from nearly 40 per cent of employment in 1961 to under 10 per cent of employment in 2011.

With the UK economy set to experience profound and transformational change in the years running up to 2030, we will need to learn the lessons of the past, and ensure that they are not repeated. Government should seek to play a more active role in supporting individuals and industries to adapt to change. A more proactive and responsive adult skills system will be fundamental to delivering this.

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### **Case study: Supporting transition in the oil and gas industry in Scotland**

The offshore oil and gas industry, with Aberdeen at its heart, has been a major part of the UK economy for over three decades. Short-term shifts such as the plunge in global oil prices, and long-term challenges stemming from the need to decarbonise the economy, mean the industry is changing and will continue to between now and 2030.

The recent dip in oil prices triggered a crisis in the industry, leading to the loss of a significant number of jobs. In Scotland (where skills policy is devolved) an Energy Jobs Taskforce has been created which is designed to implement a mix of policies to both retain people in the industry if possible and to help them transfer into new jobs and sectors if necessary. The taskforce has supported over 2,500 individuals and 100 employers through the downturn (Scottish Government 2016). Job fairs are held by PACE (Partnership Action for Continuing Employment) and face to face support is available.

Further, the Scottish government has set up a Transition Training Fund which provides training and support for eligible oil and gas workers. The fund is a £12 million pot of money set aside over three years. Set up in February 2016, there are a number of different aspects to the scheme. It is designed both to enable workers to keep the skills they need to stay in the oil and gas industry (as some offshore qualifications expire if not utilised by a worker) and to support transitions into new industries (Scottish Parliament 2016). The TFF also helps former oil and gas workers transition into other occupations in high demand, such as the teaching profession where expertise in STEM subjects is particularly needed (Scottish Government 2016).

There have been some early suggestions that the TFF is too bureaucratic and difficult to access. The need for a prospective employee to have a new job before they were eligible to access the training is seen as hampering its effectiveness, as is the need for the new employer to contribute towards the training. Comparatively high wages in the oil and gas sector might also leave potential new employers in other sectors concerned that a new employee would return to the oil and gas sector when there was an uptick in the oil price, leaving them with little to show for their investment.

It is too early to judge the effectiveness of this specific programme, but workers in the sector appear to have benefited from the active approach taken by the Scottish government to manage the transition.

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The Scottish government's actions to support the workforce in the oil and gas sector is illustrative of a wider approach that could be taken by the UK government to support other industries and workers in sectors facing significant change.

Where there are very large numbers of job losses, and concerns over significant impacts on local economies, the UK government does occasionally put in place more intensive support programmes, such as the £3 million package of training support offered to Scunthorpe steel workers as part of a £9 million support fund. While these initiatives are welcome, they are ad hoc rather than systematic, the funding devoted to retraining is often relatively small, and funding often arrives late in the process.

There is a clear case for government to take a more proactive role in supporting industries facing transition and their workforce. Early and effective intervention can prevent workers from falling into long-term unemployment and ensure that skills are used effectively elsewhere in the economy. Such intervention to support retraining can also minimise the impact on regional economies of a decline in a significant local industry.

There is also a strong argument that areas with declining industries require an active policy framework to avoid being trapped in terminal decline. We explained in chapter 2 how areas that have already experienced the damaging impact of deindustrialisation are those most likely to be home to sectors with a high potential to be affected by automation.

However, transition policies could both help and hinder an area if not designed carefully. Actively supporting transition could speed the movement of skilled workers out of an area, which could be positive for the workers and the economy but have negative effects on the area they are leaving. An area-based approach to transition, designed more to support a local economy, on the other hand might not make full use of the skills of transition workers.

The answer to this apparent dichotomy could lie in a more active and place-based industrial strategy that is drawn up with both a spatial element and a consideration of wider national priorities. The government's industrial strategy offers the opportunity for such an ambitious approach. This could involve an industrial strategy for sectors, which is both industry- and place-based, and which supports sectors

and areas to transition workers in declining occupations or industries towards new or undersupplied ones.

## 5.2 SUPPORTING INDIVIDUALS TO ADAPT

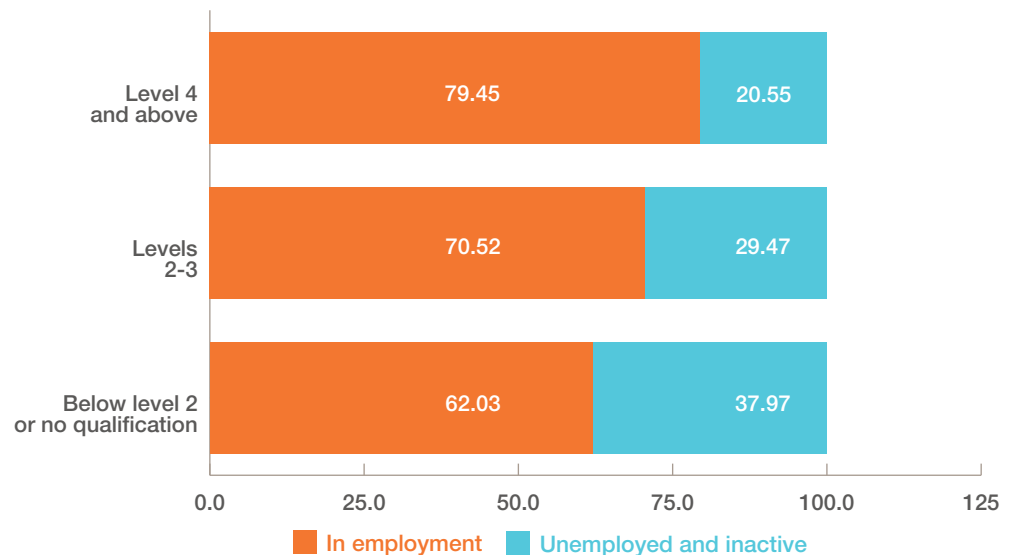
Ensuring displaced workers can find employment opportunities that fully utilise their skills elsewhere in the economy should be an increasingly important aim for employment and skills policy.

The UK has relatively high levels of redundancies. Across the last three years, an average of 441,000 workers were made redundant each year (ONS 2017f). Levels of redundancy in the UK are higher than in other advanced economies (Quintini and Venn 2013) and re-employment rates for workers who are made redundant are very poor. Four in 10 workers made redundant in the UK between 2000 and 2008 were back in employment within a year, with five in 10 in within two years. However, in the US, seven in 10 were back in work within a year, in Finland eight in 10, and in Sweden nearly nine in 10 (ibid).

**FIGURE 5.2**

**Adults without a level 2 qualification are twice as likely to be unemployed or inactive a year after redundancy than an adult with a level 4 qualification**

*Percentage of those who are made redundant who are in employment a year after the quarter in which they were made redundant (October 2010 to September 2015)*



Source: IPPR analysis of Office for National Statistics' Labour Force Survey, pooled waves from October–December 2010 to July–September 2015

Workers with lower levels of skills face particular challenges when they are made redundant. As figure 5.2 shows, adults with low or no qualifications have lower re-employment rates and are twice as likely to be unemployed or inactive a year after redundancy than those with



higher-level qualifications. Two in five adults without a level 2 qualification were still redundant a year after they fell out of work, compared to just one in five of those with level 4 qualifications.

Currently there is relatively little support for employees in the UK who are made redundant. Where there are large-scale redundancies Jobcentre Plus can deploy the rapid response team to provide such help as: information, advice and guidance and help with CVs to support job search; skills and training analysis to help identify transferable skills and training requirements; e-training where appropriate and early access to some Jobcentre Plus programmes.

However, the rapid response team usually deals only with large-scale redundancies once these have been triggered. This means that most workers who are made redundant will receive far less support. The government should look to some international examples to develop a more systematic approach to retraining displaced workers in the UK.

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### **Sweden – Job Security Councils**

In Sweden, job security councils (JSCs), acting for particular groups of employers (such as public-sector workers or manufacturing workers), have to be notified of redundancy before it can proceed. They then offer a package of support, which varies by JSC, but usually involves providing severance pay and a range of advice, including careers advice and counselling, as well as information on local education and training opportunities and unemployment benefits. The JSCs also run seminars on managing redundancies for employer management teams. These institutions are funded by employers who pay a fee proportionate to their labour costs, acting via an insurance model to support workers who are made redundant (OECD 2015).

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### **United States – Universal Displaced Worker Programme**

In the US, a range of support is set to become available to those who have lost their job under the Universal Displaced Worker Programme. Those who are made redundant after having been continuously employed for three years are eligible for a training voucher, valued at \$8,000, which can be spent on eligible training linked to particular occupations that are in demand. This is combined with extra financial assistance with transport and childcare costs, as well as a relocation allowance for those who ultimately find work further afield (Employment and Training Administration 2014).

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### **Canada – Temporary Career Transition Assistance**

The career transition assistance (CTA) initiative in Canada provides a useful model for how to support retraining through the welfare system. Launched in 2009, the programme provided new

claimants of employment insurance (an unemployment benefit) with financial support for training. This support took two forms: additional weeks of employment insurance for those that enrolled in full-time courses lasting at least 20 weeks, and earlier access to employment insurance for those individuals that used redundancy payments to pay for their training. Canadian provinces also provide complementary funding streams, such as Ontario's 'Second Career' service, which offers up to \$28,000 for costs including subsistence and tuition for those recently made redundant (Employment and Social Development Canada 2014).

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## RECOMMENDATIONS

The government currently has no strategic framework for identifying sectors and occupations where large numbers of workers are at risk from displacement from the labour market as a result of technological and economic change.

In its 2017 election manifesto, the Conservative party committed to introducing a 'national retraining scheme' to help workers to stay in secure jobs as the economy changes (The Conservative Party 2017). There was little detail on what the scheme would entail, but we propose the following five measures as the basis of such a scheme.

- **A cross-government framework should be put in place by DfE and BEIS together with the proposed Productivity Commission to monitor industries in transition as part of the government's new industrial strategy.** Key criteria for this should include, but not be limited to, those industries with both a high number of jobs with the potential to be automated, and a high proportion of workers with lower-level qualifications who may struggle to secure alternative employment. We identify these sectors in chapter 2 as high risk. It should also focus on industries which are highly geographically concentrated, and where local economies are heavily reliant on these industries.

For example in retail and wholesale, there are over two and a half million jobs at high risk of automation, and three in four workers have only a level 3 qualification or below, and so are more likely to secure alternative employment. Industries such as these could see a high level of job displacement in the coming years, with predominantly low-skill workers being affected, and facing a higher chance of falling into long-term unemployment.

- **The place-based and sectoral institutions proposed in chapter 3 should be responsible for intervening in the sectors identified as at risk in the framework.** Sectoral institutions should work proactively with employers in their industries to forecast skills needs, and encourage a collective commitment to skills and innovation in order to maintain competitiveness. Where sectors are struggling, local productivity partnerships should work together with local employers, the sectoral institution and government to support workers to move into other occupations in high demand where their skills could be used, or to stimulate demand in new sectors through strategic investment. Local

institutions would be able for example to draw on the regional skills fund to support the transition process.

- **New retraining powers should be introduced for local areas.** In its manifesto, the government committed to a national retraining scheme, under which employees would be able to retrain and stay in secure work, with the government covering the cost of training and employers able to access their levy funds to cover wage costs during the training period (Conservative Party 2017). We propose that in addition to this and as part of the responsibilities set out above, local areas should be given powers to force firms that meet certain criteria (a high proportion of jobs vulnerable to change or decline/and a high proportion of workers who are low skilled) to release workers for a certain number of days per month for retraining. Firms would be compensated through the use of skills and productivity levy funds or supported to set up job rotation schemes (McNeil 2010).
- **Workers who are made redundant and who lack an NVQ level 3 qualification should receive a personal retraining allowance of £2,000 to invest in upskilling.** There should be greater support for low-skilled workers who are made redundant to retrain and return to work. Matched-funding of up to £1,000 should be available to other workers who are made redundant and who want to invest in reskilling. This funding should be made available through the personal training credit, with local productivity partnerships also able to contribute in order to top up funding for those seen as most at risk.

As part of Real Time Information (HMRC 2014), employers should be required to notify HMRC when an individual is made redundant, with information shared with DWP in order to offer support for the individual. The personal retraining allowance would cost around £164 million a year.<sup>7</sup> This could be paid for by reducing the tax free allowance for redundancy payments. Currently the tax free allowance is £30,000, double the average payment and double the maximum statutory payment of £14,370. Reducing the tax free allowance to £14,370 would raise around £156 million.

- **A minister for productivity and skills should be appointed to support a stronger national focus on supporting industries and communities to adapt to the demands of the global economy.**

Adult skills currently falls within the portfolio of the apprenticeships and skills minister. Adult education forms only a small part of a large portfolio, with the primary focus being on young people. The portfolio sits just within DfE, whereas the role of minister for universities, science, research and innovation is jointly held across DfE and BEIS.

The portfolio of the productivity and skills minister should be based jointly across DfE and BEIS. The portfolio should include adult education; industrial policy; employer investment in skills; skills utilisation, job quality and workplace innovation; career learning; and information, advice and guidance.

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<sup>7</sup> Assuming current levels of redundancies and 25 per cent take-up

The remaining elements of the portfolio of the apprenticeships and skills minister should be included in the portfolio of the minister for school standards, which would then cover all compulsory-age education. This would help ensure a greater focus on adult skills within government, and it would support a focus not just on increasing the supply of skills, but on boosting demand for skills and utilisation of skills in the workplace. It would require no net increase in ministerial roles.

## 6. CONCLUSION

Our economy will undergo profound changes in the years running up to 2030. Improving our adult skills system will be essential if we are not only to respond to the trends that will impact on our economy, but to turn them to our advantage, and to build an economy that works for everyone.

England's skills system suffers from serious and long-standing weaknesses.

- **Weak demand for and investment in skills and poor skills utilisation** – Employer investment is lower than comparable countries, and it has fallen in recent years. Public investment has fallen sharply since 2010. Improvements in qualification levels among the workforce over the past two decades have not fed through to improvements in productivity.
- **A lack of high-quality vocational education and training** – In the absence of clearly articulated employer demand, provision has been shaped by funding and assessment criteria set by central government. Much of the current provision is delivered at a low level, and has poor wage returns.
- **Deep social and regional inequalities** – The skills system fails to address the deep social and regional inequalities that scar our country and hold our economy back. The adults who might benefit most from participating in training are the least likely to do so. There are deeply entrenched regional inequalities in terms of skills, productivity and pay. The apprenticeship levy risks accentuating rather than addressing these inequalities.

The weaknesses in the English skills system arise directly from the assumptions that underlie it. These assumptions – that boosting qualifications inevitably boosts productivity; that with the right incentives and an employer-led system, firms will invest for the benefit of all; that competition and a market-based approach would drive up quality; and that individuals will act as consumers and make rational decisions to boost their skills – have increasingly been proven to be flawed. Many of the problems of the adult skills system flow from the relatively 'hands-off' approach to vocational training, and the reluctance to intervene to boost quantity or quality. These assumptions, and this approach, need to change.

If we are to deliver an adult skills system and an economy that works for everyone, we need a much more ambitious approach, and a greater focus on how the skills of the adult population are being developed and utilised in the workplace. The old flawed assumptions should be replaced with the following new principles:

- that the government has an interest in encouraging employers to pursue the high route to business success, so we need to boost not just the supply of skills, but demand for and utilisation of skills too

- that the skills system should be less centralised and less statist – the system should instead be governed by strong sectoral and local institutions, based on social partnership, with employers and employees represented
- that there should be a collective approach to funding, with employers, learners and the state all investing in skills
- that we should put people in control, giving them the resources, information, and incentives to invest in their own future.

In this report, we have set out recommendations to boost investment in skills. Set at 1.0 per cent for larger firms and 0.5 per cent for medium-sized employers, the productivity and skills levy would raise £5.1 billion, significantly boosting employer investment in skills. Through top-slicing a quarter of the contributions of larger firms, the levy would generate a regional skills fund of £1.1 billion to support skills devolution, focusing investment on areas that need it most.

Beyond increasing employer investment, the personal learning credit would focus resources on those who need them most, close the participation gap, and put people in control of their training and careers. It would provide £700 a year for a low-skilled, low-paid employees, supporting them to invest in the training that can help them to progress.

We have set out institutional reforms that will both improve the quality of provision, and ensure that adult skills plays a central role in an active and ambitious industrial strategy. The Productivity Commission – funded by a 1 per cent top-slice of the skills levy – would provide system leadership, and lead a national mission to boost both skills, job quality and workplace performance. Strong sectoral institutions would drive a collective commitment to skills, bringing together employers and employees to ensure high-quality training in their sector. Local productivity partnerships would drive skills devolution, taking responsibility for commissioning, quality assurance, and providing business support to local employers to help them boost skills and productivity. Commissioning would be based on outcome agreements to focus investment on the things that matter – like pay, progression and productivity – rather than mere outputs. The Productivity Commission, and the sectoral and local institutions, should all be social partnership bodies, with employers and employees represented. This would democratise the system, ensuring that it works for all.

The Sainsbury framework for technical education should be rolled out to adult learners, providing clear and comprehensible career pathways to help people progress. High-quality, locally provided information, advice and guidance – informed by high-quality local labour market information – should be available to support decisions, with a focus on those least likely to participate but most likely to benefit in learning.

We have also put forward recommendations for for a more ambitious approach to supporting industries, communities and individuals to adapt to the demands of the global economy. A cross-government framework should identify and monitor industries in transition. Place-based and sectoral institutions should be able to intervene to support sectors to adapt, and local areas should be able to require firms meeting certain criteria to release workers for retraining. A personal retraining allowance

worth £2,000 should be available for workers without an NVQ level 3 who are made redundant, to support them to retrain and return to work.

For too long, adult skills has been a low political priority. A minister for productivity and skills should be appointed working across DfE and BEIS with responsibility for driving up quantity and quality of provision, and skills utilisation.

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