

NO TRAIN NO GAIN

BEYOND FREE-MARKET
AND STATE-LED
SKILLS POLICY

REPORT

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EXECUTIVE SUMMARY

A significant proportion of jobs in England¹ offer little or no training of substance and few opportunities for staff to develop or utilise their skills. Many firms in other northern European countries train more, and to a higher standard, than comparable British firms and sectors, and as a result many jobs that in England are viewed as low-skilled or ‘bad’ are, in other countries, broader and require a deeper level of skill.

This report explores why employers do not train. We show that a lack of investment in training is rooted in ‘low-road’ competitive strategies that do not require a well-skilled workforce. While often profitable, these business models have implications for employees, consumers and the state.

This raises questions about the prominence given to skills policy under Conservative and Labour governments since the 1980s, and more recently under the Coalition. This approach has been based on the acceptance of an economic model that rejected the traditional tools of industrial policy – economic planning, regulation and subsidies – in promoting growth. With little desire to intervene at firm or sector level, uprating the skills of individuals has become the principal form of intervention in the economy.

In government, Labour argued that investment in the skills of the workforce would transform the UK into a high-skill economy and drive greater social mobility. But despite wide-ranging institutional reforms to the skills system and unprecedented public investment in education and training, the promised ‘knowledge economy’ remains an impartial account. Demand for higher-level skills has expanded since the 1980s, but nearly half of all jobs in the UK do not require post-secondary education and one-third of firms offer no training to staff.

Despite the limited impact of costly quango-led workforce development programmes in the past, many of the assumptions about the transformative role of skills policy remain intact under the Coalition. The need to interrogate the limitations of this ‘supply-side’ approach is all the more urgent at a time of unprecedented fiscal austerity.

Workforce training in England

Low-training firms often (though not always) operate in low-value product markets, competing on cost and price rather than quality and professional competence. Jobs tend to be narrowly task-focused, repetitive and low-paid, raising concerns about job quality, in-work poverty and limited social mobility. While there are high levels of variation within different industries, low levels of training are more common in sectors where low-skill, low-wage work is more prevalent – such as retail, hospitality, storage and distribution, and food processing firms – and in low-paid service occupations, such as care workers, nursing assistants and fitness instructors. Low-training firms are a particular concern in industries where standards matter but are difficult for consumers to assess, including construction, vehicle repair and privately provided care services. Most of these jobs are in domestically-traded service industries that face almost no global competition, and where consumer demand is stable or expanding.

Employers’ choices about which competitive strategies they adopt are informed by the nature of the market in question, existing workforce skills (particularly management skills) and the broader legal and institutional settings in which companies operate. In contrast to many continental European countries, in England decisions about training have been

1 Skills policy is devolved; while some of the data used in this report refers to all of the UK, its focus is the English policy context.

largely left to the market. While many employers do train, low levels of labour market regulation and weak investment in business support services leave policymakers with few tools to encourage innovative work organisation and skills-led competitive strategies. Weak employer associations and union federations struggle to support the formation of sophisticated training models and to oblige employers and unions to participate in nationally agreed training programmes.

Labour's reluctance to intervene at the level of the firm or sector rested on the belief that attempts to encourage alternative forms of comparative advantage would inevitably fail. Instead, Labour saw its role as generating 'transformational' state action designed to support *individuals* to achieve their potential and respond to economic uncertainty. Importantly this approach increased access to basic skills and general education for adults. However, although Labour attempted to reinvigorate vocational education and training, little attention was paid to the quality of training, whether qualifications translated into better jobs and higher wages, or whether and how skills were used and managed in the labour market.

The failure to engage employers in skills policy and funding led to an over-reliance on centralised state-led programmes and institutions to fill the gap left by the market. Labour's flagship workforce training programme, Train to Gain, was developed largely without involvement from employer or employee representatives. It was based on low-level competence-based qualifications (invariably NVQs) that were cheap and could be delivered on a mass scale. Often, these simply assessed employees' existing skills and did not offer any additional training, and as such had weak currency in the wider labour market. Train to Gain had little impact on employers' decision to train and often subsidised existing low-level training by firms.

Institutional reforms under Labour contributed to a skills system that operates largely in isolation from the employers and employees whose interests it represents. Funding priorities, curricula development, quality assurance and assessment processes are the responsibility of state-funded bodies and private sector training providers. Supposedly 'employer-led' sector skills councils (SSCs) were set up in 2002 to articulate employer demand for skills (for example, to state funding agencies), to reduce skills shortages and to improve productivity by driving up skill levels. However, SSCs are largely funded by the state, have their strategic objectives set by the state, and are expected to help deliver the state's skills policy. Employee representation is limited to one seat on the board and many SSCs are dominated by large employers and those already committed to training. The influence of SSCs on employer demand for skills is limited, since they have no remit to drive improvements in competitive strategies or work organisation within their sector.

The Coalition has sensibly removed top-down targets to improve English qualification rates in relation to other countries and avoided significant institutional reorganisation of the sort that tended to aggrieve employers and training providers under the previous Labour government. However, the underlying assumption behind government policy is that demand for skills and a willingness to invest in training among employers have been held back by central planning and control. Policy documents reveal little understanding of why employers do not train or how to improve employer commitment to skills policy and funding.

Towards a well-skilled society

The vision of a knowledge economy has little relation to the experience of the significant proportion of the workforce in low-skilled, low-paid jobs, many of which offer few opportunities for development. Ensuring that everyone participates in and benefits from growth requires a vision of progress based not on a high-skilled but a ‘well-skilled’ society, where people’s talents are used and cultivated across all occupations, sectors and regions. This will require a radical shift away from centralised skills bodies and state-led adult skills interventions, focused on individual employees, and towards local and sector-level programmes designed to influence the competitive strategies adopted by firms.

A combination of ‘hard’ and ‘soft’ measures account for greater employer commitment to skills and training in other northern European countries. The state plays a stronger regulatory role to protect employees and consumers from unscrupulous employers and irresponsible practitioners, but there is also far more generous and tailored support available to help firms to innovate and respond to economic change. In contrast to the state-led, centralised approach in England, training is regulated and delivered by trusted intermediaries that know and represent the sector in which they operate, and which have a remit to drive improvements in both the supply and demand for skills.

Greater use of legal training requirements, particularly occupational licensing, is a key reason why qualification rates and training levels are higher in continental Europe. The rationale for legislated training requirements is strongest in sectors where poor professional competence poses a risk to consumer wellbeing. Many other countries, including other Anglo-Saxon economies, protect consumers in a far wider range of sectors than is the case in England. For example, in Australia occupations that require any medical, financial or legal knowledge usually also require a licence to practise, as do a wide range of roles in the construction, security, fitness, logistics, vehicle dealership and repair industries, and business advisers, employment brokers, and real estate and travel agents.

In the UK, licensing in sectors in which employers are committed to high-skill competitive strategies, such as the chartered professions, has often been introduced by industry and is associated with strong wage returns. The impact of new training requirements on job quality and customer standards in lower-skilled sectors has been limited, however, by the poor quality of training and by weak human resource practices that fail to utilise or develop workforce skills. Regulation is not a panacea, particularly not in the English context, and should be combined with efforts to improve the quality of training and workforce development opportunities by embedding them in firms’ wider human resource practices.

High-quality, tailored models of business support can improve job quality and business performance by helping firms to rethink their competitive strategies and promoting social and work innovation. In one example from Norway, workers in a municipal meals service were trained and involved in planning meals, purchasing and budgeting. This resulted in increased productivity, lower procurement costs and improved staff motivation and skills utilisation. In Scotland, a series of similar pilots is being run by further education colleges and universities in consultation with industry stakeholders. An interim evaluation suggests that local colleges – if provided with the resources and expertise – could help to fill a gap in the UK’s lack of tailored business services.

Institutional reforms to the bodies governing skills and the labour market are required to embed such approaches more broadly. The lessons from Europe suggest that

collaborative approaches, based on sector- and firm-level interventions and delivered through existing institutions, can generate collective commitment to skills policy and funding from employers, citizens and the state. Strong vocational education and training systems, notably those in the Netherlands and the German-speaking and Scandinavian countries, are built on a social partnership between employer and employee representatives and the state. This ensures that the priorities and content of training are set by those closest to its needs: employers and employees.

The skills system meets employers' immediate skills needs, responds to changing economic circumstances and produces high-quality training that has currency in the wider labour market, supporting mobility and progression for workers. Sectoral partnership bodies are responsible for determining strategic priorities, developing broad qualification frameworks and setting occupational standards and licensing requirements for the sector. Local bodies determine the content, form and assessment procedures, and regulate the quality of workforce training in both colleges and the workplace. These rich networks can also provide access to finance and business support to disseminate and encourage work and social innovation among firms. This helps to explain why commitment to a well-skilled society is more deeply embedded in the more 'vocational' economies of other northern European countries.

Recommendations

Our goal is to support and encourage more firms to adopt competitive strategies that support higher job quality, and at the same time improve the dynamism, innovativeness and resilience of English firms. The weakness of the institutional fabric in England makes this a challenging agenda to pursue. A revolution in skills policy or in the existing landscape is unlikely to have the desired effect. Instead, we advocate an evolutionary approach to reform that responds to the unique contexts in different sectors and locations. A key feature of this is likely to be variability, with different approaches trialed in different sectors. We set out the tenets of reform here, while leaving scope for flexibility and experimentation across different supply chains, occupations and areas.

- **Democratise sector skills councils:** SSCs should be reformed from state-funded quangos to democratic bodies. Boards should be made up of one-third employer representatives, one-third employee representatives and one-third representatives of the state and other stakeholder interests. Wherever possible, representatives should be drawn from the relevant employer association and unions. Where a sector has no union presence, the employer representatives would be required to facilitate the election of a representative body of employees across the sector.
- **Devolve decision-making power:** Reformed SSCs should have power to determine strategic funding priorities for skills in their sector, with control over a combined growth, innovation and training budget. Reformed SSCs should have responsibility for developing (instead of approving) the broad frameworks for vocational qualifications, in consultation with key stakeholders, and should have the power to determine and set licences to practise for their sector. This process should be evolutionary, with power only transferred to stronger, more representative SSCs, on a sector-by-sector basis. State representatives will ensure accountability and value for money where public funding provides training and business support.
- **Establish local skills boards:** SSCs should be given the remit to develop and fund local social partnership boards at the level of local enterprise partnerships (LEPs). These boards would bring together local employers and industry and worker representatives with local educational institutions, group training associations,

educationalists and experts in work organisation and job design. They would design the content of vocational education and training to suit local circumstances, develop and conduct procedures for assessment of learners, and regulate the quality of training for young people and where licences to practise are in place.

- **A something-for-something deal with employers:** Local skills boards would set up and fund group training arrangements, working in partnership with local FE and HE providers or where possible building on existing formal and informal networks of employers. Membership would give local employers access to finance and training credits, and to tailored business advice aimed at addressing organisational problems and improving training, competition strategy, work organisation and job design. Publicly subsidised support would be conditional on employers committing to actions to develop competitive strategies based on a well-skilled workforce, with boards having the power to strip companies of skills funding and support if they fail to meet their side of the bargain. Membership would be mandatory in sectors where consumer wellbeing is a concern or where a licence to practise is in place. Firms would have to be members in order to access tax relief for training.
- **A new role for further education colleges:** Under these reforms, local further education colleges would deliver more higher-level off-the-job training and also support firms to improve the quality of in-company training and opportunities for the workforce. Working closely with industry representatives and group training associations, colleges and universities would develop specialist sector knowledge and could play a role in delivering tailored business support to firms. They would require the flexibility, resources and capacity to deliver this.
- **Towards high-quality workforce training and development:** The level and requirements of workforce development programmes should be determined by the goal of improving business performance and professional competence, with qualifications developed by industry stakeholders. The quality of workforce development programmes has often been undermined by the goal of supporting disadvantaged groups. Adults who lack a good basic education are better served through high-quality general education delivered outside the workplace. A successful skills agenda also requires a successful general education system, but one should not substitute the other.
- **Funding:** The adult skills budget is shrinking in cash terms and the state currently spends very little on business development. The priority for the adult skills budget must ensure that all adults have access to a high-quality basic education, and other sources of funding must be found to pay for the workforce training and business development service proposed here. This service could be funded by bringing together existing sources of funding for business support, including the Growth and Innovation Fund and the Employer Ownership Programme. These funds should be expanded and supported by strong state-backed investment designed to address England's chronic problems with low business investment and to boost growth, innovation and employment in the economy. The government should commit, in the first instance, £2 billion to this agenda, with reformed SSCs given responsibility for distributing the funding (allocated according to the size of their sector) to employers and training providers through local skills boards. This is less than the government currently spends on tax relief for training, which is largely untargeted and unlikely to support improvements in job quality or business performance.

Conclusion

An important feature of more responsible or ‘popular’ capitalism is to enable people to find pride, purpose and a sense of craft in work, which could also help to improve the economic performance and resilience of English companies. Instead of simply upskilling individuals, adult skills policy should focus on how the decisions and practices of firms impact on their employees – particularly those in low-skilled, low-paid jobs – and on consumers and local communities.

Raising employer commitment to training and workforce development should be part of a radical attempt to improve job quality, firm performance and consumer standards through tailored business support. This requires the state to regulate more but control less. Incremental reforms should aim to replace state-funded, state-directed schemes with more targeted and more collaborative approaches between employers, employees and the state. These should be rooted in creative experimentation, carried out on a sector-by-sector and location-by-location basis. The long-term aim should be to develop a network of supportive local and sectoral institutions, comparable to those in Europe, with a remit to improve business performance, productivity and work organisation.

INTRODUCTION

A significant proportion of jobs in England are low skilled and low paid, and offer little or no substantive training and few opportunities for staff to develop or utilise their skills. Employer investment in workforce training and development is lower on average than that of our main competitors in northern Europe, and many British employers train less than comparable firms in other countries. The result is high levels of working poverty and limited social mobility, as well as poor professional standards and business performance in particular firms and sectors.

This report explores why employers do not train. The explanation is rooted in ‘low-road’ competitive strategies that do not require a well-skilled workforce. While such approaches can be profitable, they have implications for employees, consumers and the state. This raises questions about the prominence given to skills policy under the Conservative, Labour and Coalition governments since the 1980s, which is based on the acceptance of an economic model that has rejected the traditional tools of industrial policy – economic planning, regulation and subsidies – in promoting growth. With little desire to intervene at the firm or sector levels, improving individuals’ skills has become the principal form of intervention in the economy.

Labour argued that investing in workforce skills would transform the UK into a high-skill economy and drive greater social mobility. However, despite wide-ranging institutional reforms to the skills system and unprecedented public investment in education and adult skills provision, the ‘knowledge economy’ remains an impartial account. Demand for higher-level skills has expanded since the 1980s, but nearly half of all UK employers do not require post-secondary education, and one-third offer no training at all. Despite the limited impact of previous costly quango-led workforce development programmes, the Coalition maintains many of the same assumptions about the transformative role of skills policy. Identifying the limitations of this ‘supply-side’ approach is all the more urgent at a time of unprecedented fiscal austerity.

This report identifies a new role for skills policy within the wider context of labour market and economic policy. We advocate evolutionary reforms to the current regulatory and institutional environment that are designed to encourage and support employers to better value, utilise and develop the skills of their staff. We argue that the state should adopt a stronger and more targeted approach to regulation, but that employer representatives, in partnership with employees and other stakeholders, should be given more say over skills policy and funding.

Report structure and scope

Chapter 1 examines the UK’s low levels of employer investment in training relative to other affluent countries, and outlines the consequences for the state, employees and consumers. It explores the competitive strategies behind these low levels of training and argues that the English institutional model has historically provided weak incentives to engage employers in skills policy and funding.

Chapter 2 promotes a vision of progress based not on a *highly skilled* but a *well-skilled* society, in which people’s talents are used and cultivated across all occupations, sectors and regions. It explores why employers in other countries are more committed to training and workforce development. These factors include a stronger regulatory framework, more active business support and a social partnership approach to skills policy and funding.

Finally, chapter 3 draws on these lessons to identify a long-term strategy to generate a collective commitment to skills and training from employers, citizens and the state. While

in the past it has been assumed that policies should not jeopardise firms' 'comparative advantage', the recent experiences of other European countries demonstrate that evolutionary reforms to the institutional landscape could support improvements in both the supply of and demand for skills. This should be rooted in creative experimentation that aims to improve business performance and job quality in different regions and sectors, supported – but not led – by the state.

Social and economic aims also depend on how levels of workplace training interact with the education system. Wider issues, such as the provision of basic skills education for adults and the quality and equity of the school system are also important, but are out of the scope of this report.

Skills policy is devolved and, while some of the data refer to all of the UK, the focus of this report is the English policy context.

1. WORKFORCE TRAINING IN ENGLAND

Although many English employers invest considerable amounts in training, supported by substantial state investment, workforce training is not given sufficient priority in some firms and sectors. Companies in England are less likely to provide training for their employees than many of Europe's most dynamic economies, and the intensity of workforce training is considerably lower than in most rich-world countries. This chapter explores the extent of workforce training in England and sets out the key theoretical arguments surrounding the drivers of investment in training, arguing that low demand for skills is rooted in the 'low-road' competitive strategies adopted by some firms – a model that England's wider institutional landscape often encourages. It considers the development of workforce training policy and practice in England, focusing on the historical dominance of the market and the more recent state role in developing a training system that often fails to meet the needs of employers, workers and the state.

1.1 The case for training: beyond market failure

Various governments have attempted to drive up social mobility through reforms designed to improve levels of basic skills and general education, but the case for policymakers to intervene in private companies' provision of training has tended to rest on market failure. It is argued that because individual companies fail to invest in training that would otherwise support their competitiveness because of coordination problems or a fear of poaching, the state must step in to help them overcome this collective action problem. However, as this chapter demonstrates, this traditional vision of market failure underpins an excessively narrow interpretation of policy's role in shaping the provision of workforce training. This is primarily because many firms that fail to invest in training are nevertheless competitive, profitable and sustainable. They simply adopt competitive strategies that do not require a well-skilled workforce.

By contrast, the progressive case for the role of policy in influencing the provision of training rests on the externalised costs associated with firms that do not invest sufficiently in training. These costs fall into three areas:

- **Costs to the state:** Jobs that require low skill levels and little training are associated with low wages, which have to be topped up through the tax credit system and other means-tested benefits in order to ensure a minimum standard of living for working people. State expenditure on working tax credits alone amounted to £7.8 billion in 2009-10 (Jin et al 2010). Simply providing training for low-wage workers will not necessarily improve their wages, but since the state must support low-wage workers, policy should question business models that sustain a large amount of low-wage work.
- **Costs to employees:** A lack of training in a job is associated with narrowly task-focused work and standardised, often repetitive, production processes. Within these processes there is typically little space for employees to develop or utilise professional competence or to exercise control over the organisation of their work. The result is often poor job quality and job satisfaction, which can have a negative effect on employee wellbeing (Gallie 2009). Task-focused work can also strip employees of the power to improve production processes or drive up standards. These features characterise a significant minority of jobs in the UK: just under one-fifth (18 per cent) of employees report little or no influence over quality standards or how they perform job tasks; such roles are concentrated in sales, machine operatives and elementary jobs (Felstead et al 2007). Poor job quality is also associated with low wages, and just over one-fifth (22 per cent) of employees

in the UK are low paid – higher than in many other European countries (Mason and Salverda 2010).

- **Costs to consumers:** In firms and sectors where training is limited, the lack of professional competence and employees' inability to improve standards have important implications for consumers in sectors where the market cannot always drive up standards by itself. This could apply to sectors like social care, childcare, construction and automobile repair, in which consumers lack the information to make proper judgments about quality, yet quality is vital to the consumer – often more so than price. In recognition of this market failure, the state regulates such industries to varying degrees to create a minimum standard of quality. However, simply relying on minimum regulations, which are often rooted in health and safety concerns, provides only a basic level of protection for the consumer and can stifle employee creativity. As we shall discuss in chapter 3, workforce training and professional competence have much a stronger role in increasing standards above the basic minimum in many European countries.

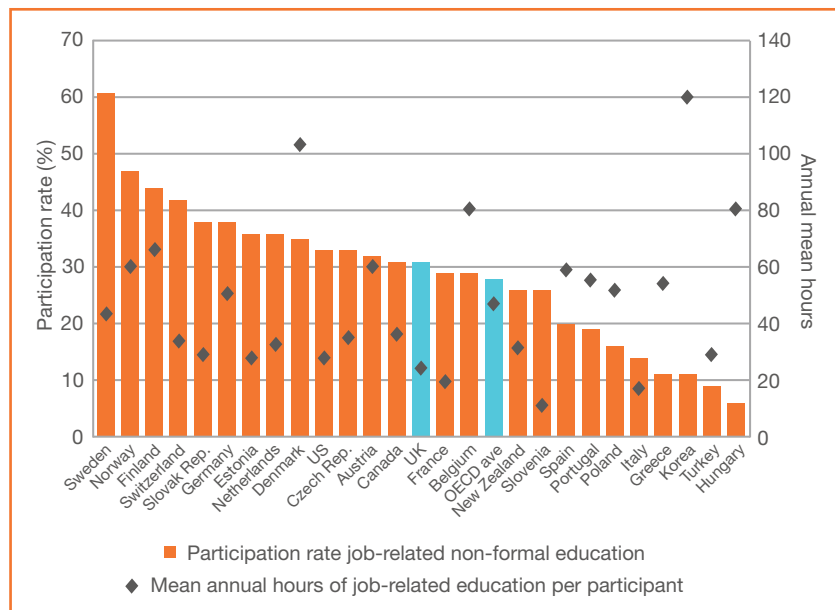
Although low-skill business models are often profitable, skills-led competitive strategies are also associated with a number of potential benefits for employers, particularly when they are faced with increased competition or hit by economic shocks. UK firms that rely more heavily on workforce skills have been shown to have a greater capacity to react to changing market conditions (Mason 2005). Better quality jobs – notably those in which staff have more control over their work and are engaged in more innovative and participative production processes – are also associated with a more motivated workforce and lower staff turnover. Many employers may wish to adopt more skills-led competitive strategies to help recruit experienced and skilled staff from elsewhere, or move into higher-value markets in response to intensified competition, but lack the resources or wider institutional support to make these changes.

1.2 Job-related training in the UK

There is a long-standing concern among policymakers and academics that UK employers tend to underinvest in workplace training relative to their counterparts in most rich countries. The average participation rate of working-age adults in workplace training in the UK is 31 per cent, slightly above the OECD average of 28 per cent. However, the UK's training participation rate is below that of the most dynamic OECD economies, including the Nordic countries, Germany, the Netherlands and the US. UK employees receive an average of 39 hours of job-related education each year, which is substantially lower than the OECD average of 58 hours. On this measure, the UK ranks above only France, Italy and Slovenia out of the 27 OECD countries for which comparable data was available. Hours of training is one proxy for the quality and intensity of training.

A series of 'matched-plant' studies, in which researchers have compared the provision of training in similar firms in different countries, have found that British employers in a number of industries exhibit a relatively weak demand for training, and that the quality of training is often lower. These studies have assessed manufacturing sectors such as automotive parts (Mason and Wagner 2002) and food processing (Mason et al 1994); service sectors including social care (Gospel et al 2011); and occupations such as nursing assistants (Appelbaum 2010). This is not a uniform pattern however; many European countries struggle to improve training rates and job quality in sectors such as retail (Carré et al 2010) and in low-level occupations in hospitality (Vanselow et al 2010).

Figure 1.1
Participation rates and annual hours of instruction for job-related, non-formal education in the OECD, 2007



Source: OECD 2011

Notes: Data are for 2007 except Sweden and US (2005); New Zealand, Finland, UK, France, Italy, Poland and Hungary (2006); Switzerland (2009); and the Netherlands, Denmark, Canada, Czech Republic and Belgium (2008). Australia and Ireland are not shown due to missing data. The participation rate is the proportion of adults aged 25 to 64 who participated in any non-formal job-related education in the previous 12 months. Includes all on- and off-the-job training, including training not provided by employers.

Many English employers invest heavily in training, alongside other investments in business improvement and competitive strategies. The National Employer Skills Survey (NESS)² estimates that private sector employers in England spent £25.5 billion on staff training in 2009, most of which was not simply focused on induction or health and safety. This level of expenditure dwarfs the government's total investment in adult skills, which totalled £3.9 billion in 2011/12.

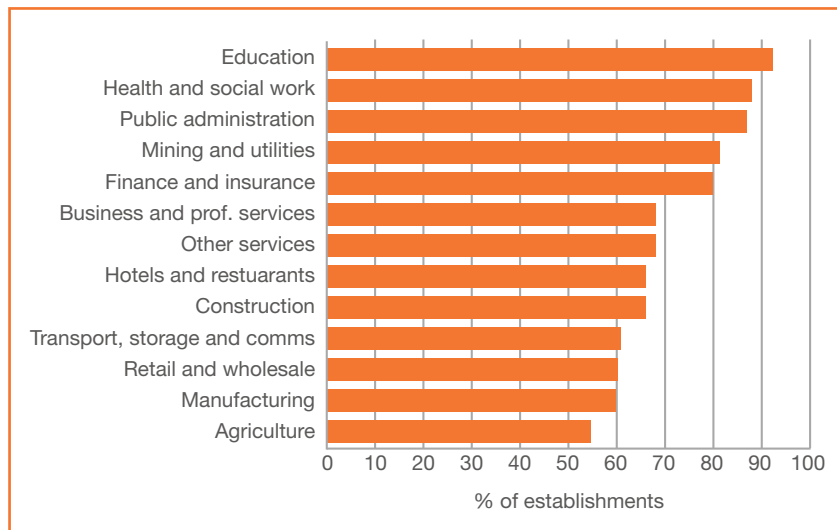
However, employer investment in training is highly variable across companies and sectors. The NESS found that 67 per cent of all employers provided training to at least some staff in 2009 (Shury et al 2010). Training rates were particularly high in public service organisations. Firms operating in some service sectors (professional services, hotels and restaurants and 'other services') and the construction sector had near-average training rates. Four sectors, including retail and manufacturing, had below-average training rates. Industries with average or low training rates included those for which the standard of goods and services is vital but difficult for the consumer to judge individually, including parts of the construction industries and the transport, communications and storage sector.

Analysis at the broad sector level masks large within-sector variations in training rates. These differences are partly explained by variations in firm size. Large employers are much more likely than smaller ones to provide training for their staff; training rates decline substantially for employers with fewer than 25 employees. Around 46 per cent of employees work in companies with fewer than 25 staff,³ and small firms are particularly common in construction and agriculture, where training rates are also relatively low.

2 The NESS is a representative survey of around 79,000 employers in England, administered by the UK Commission for Employment and Skills. Data from the NESS is not directly comparable with OECD data, due to differences in measurement, definitions, coverage and survey periods.

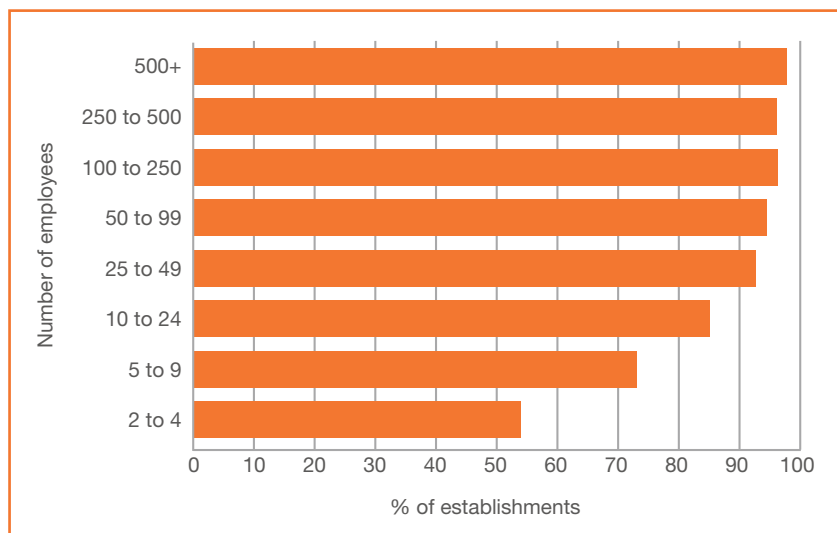
3 Business Population Estimates for the UK and Regions (2011): <http://www.bis.gov.uk/analysis/statistics/business-population-estimates>

Figure 1.2
Proportion of employers that offered training to any staff in the previous 12 months, by sector, 2009 (England)



Source: NESS 2009

Figure 1.3
Proportion of employers that provided training to any staff in the last 12 months, by firm size, 2009 (England)



Source: NESS 2009

1.3 What drives employer investment in training?

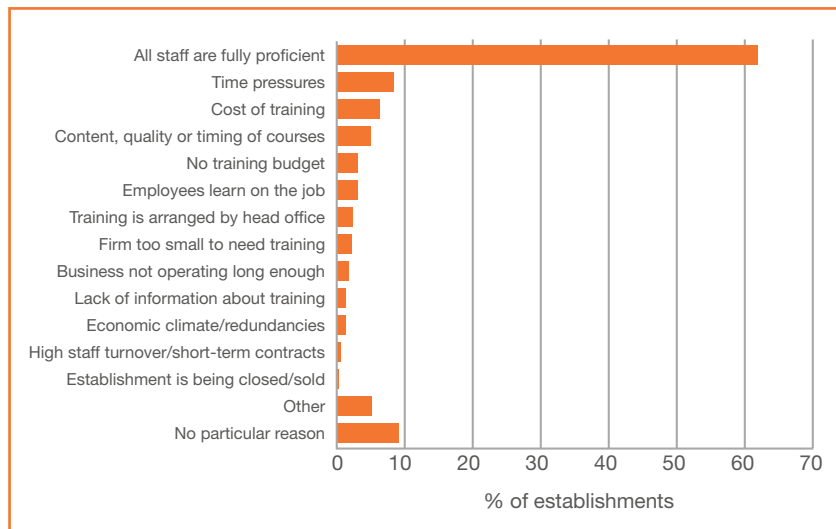
Some companies can operate successfully with little investment in workforce training and rely on a relatively low-skilled workforce. This is because businesses only require skills that can be directly used in the production process. Employer investment in training is therefore a derived demand that flows from first-order decisions about how a company positions itself in the market, how it organises the production process, and the wider legal and institutional framework within which it operates (Payne 2007).

Below, we briefly discuss the relative importance of the key drivers of employer investment in training and workforce development: the skills system itself; how a company positions itself in the market; and the institutional context in which a company operates. Understanding these drivers helps to explain why some firms invest in training and others do not – and how policy might try to increase training rates, intensity and quality in low-training firms.

The skills system

Policymakers have continuously redesigned and reorganised the English skills system over the last few decades in efforts to increase employer commitment to workforce development. Yet data from the 2009 NESS shows that the specific local arrangements for training and skills are not the primary driver of employer investment in training. Figure 1.4 breaks down employers' reasons for not offering training. By far the most common explanation – given by almost two-thirds of non-training employers – was that training was unnecessary because all staff were already fully proficient in their particular role. Managers in these firms do not consider the continuous development of workforce skills to be an important component of their competitive strategy.

Figure 1.4
Reasons why employers did not offer training in the previous 12 months, 2009



Source: NESS 2009

Note: Since employers could give more than one reason, the bars do not sum to 100.

In comparison, employers cited the particular features of local training provision much less frequently to explain why they do not offer training. Only 6 per cent of non-training employers reported that the cost of local courses was an important factor, and only 5 per cent said that the content, quality or timing of local courses prevented them from providing training to staff. Business-related explanations – such as firm size, budget pressures and time constraints – were also only mentioned by a minority of non-training firms.

These findings do not mean that the design of the skills system is unimportant. However they do suggest that simply making changes to the cost, content or quality of local training opportunities (or exhorting managers to increase their commitment to training) will not by itself lead to a substantial increase in workforce development in companies that currently do not invest in training. Focusing purely on the design of the skills system also does not help us understand why some firms invest in training and others do not.

Competitive strategy

A series of studies has found that training rates are closely associated with a firm's competitive strategy. In a simple model of the relationship between training and competitive strategy, a firm with a high-value competitive strategy – based on high-quality, customised products or services offered at a premium price – will need a well-skilled workforce capable of producing goods or services to the required specification.

Constant innovation is necessary to maintain competitiveness, which requires continuous improvements in the skills and knowledge of the workforce. The higher value produced by a well-skilled workforce creates greater wage returns for employees, and employees' ability to use their skills in the workplace tends to improve job satisfaction and employee involvement. Conversely, price-based competition models usually demand low-cost, low-skilled workers, low levels of investment (including in training) and weak innovation. Wages are generally low, job tasks are narrow and employees have little control over quality standards.

This model is broadly supported by data from the 2009 NESS. Half of the establishments operating in 'very low quality' product markets provided training to some staff, compared to 65 per cent in 'medium quality' product markets and 72 per cent in 'very high quality' product markets.⁴ Just under one-third (32 per cent) of the organisations operating in 'very high quality' product markets had a training plan and budget, compared to just 8 per cent of organisations competing in 'very low quality' product markets. Analysis that controlled for a range of other possible influences on skill levels found a relatively strong correlation between 'high-end' competitive strategies and high levels of workforce skills (Mason 2005).

The nature of competitive strategies is closely associated with a number of firm characteristics:

- **Industry sector:** the construction and agriculture sector has a particularly small proportion of firms that claim to pursue high-value competitive strategies; high-end competitive strategies are more common in finance, business services and 'other services' (Shury et al 2010)
- **Establishment size:** small firms are less likely to adopt high-value competitive strategies, which may in part explain the relatively low training rates in firms with fewer than 25 employees (ibid)
- **Growth:** high-end competitive strategies are more common in businesses that have experienced a recent increase in sales (Mason 2005)
- **Innovation:** companies that have introduced new products or services, and those that have adopted new technologies, are also more likely to have high-value competitive strategies (ibid).

Mason (2005) found that each of these factors is also independently correlated with higher training rates. This finding suggests that both higher training rates and high-end competitive strategies are associated with larger, innovative and high-growth firms, particularly those found in service industries other than retail and hospitality.

However, the correlation between training rates and competitive strategy risks reducing myriad complex business strategies into two simple models (high-value v low-value) that are associated with high and low demand for skills or training. Real competitive strategies are complex and unique, with companies situated on different points across a range of spectrums on price, quality, specification (the complexity or sophistication of a product) and volume. As a result, studies have identified a large amount of variation in competitive strategies within industry sectors (Mason 2005; Ashton and Sung 2006). High-value competitive strategies are not automatically associated with a well-skilled workforce. For example, luxury hotel chains and high-end gyms often compete on branding and the

4 A composite measure derived from employers' answers to questions about the quality, range, volume and price dependency of products and services in their product market, as well as innovations in products, services or techniques.

quality of their facilities, but rely on a largely low-skill, low-wage workforce (Lloyd 2003; Mason 2005). Conversely, firms operating in low-cost, standardised markets may choose to invest in employee skills to achieve a competitive advantage. Ashton and Sung (2006) described a UK package holiday company that offered high-volume, standardised products through call centres, but which had invested in training to create a competitive edge.

The complexity and diversity of competitive strategies helps to explain why, among firms that seem quite similar, some invest in training and workforce development, while others do not. Even within the same firm, particular sections of the workforce – such as managers, higher-level occupations and certain sub-sets of employees – may receive training, while other groups do not (Mason and Bishop 2010). (Many firms invest more in training higher skilled employees than they do on lower skilled workers; a rational decision given that the rate of return on their investment is likely to be higher.) This complexity also makes it difficult for policymakers to identify firms that may need the most support with training, and supports the argument against a standardised approach to training and business improvement, even at the sector level.

The focus should be on companies with competitive strategies that rely on overly task-based production processes; where employees are engaged in repetitive, tightly structured activities; and where innovation and growth are weak. These are more common in (but not limited to) sectors in which low-skill, low-wage work is more prevalent, such as retail, hospitality, storage and distribution, and food processing; and occupations that have limited skill development, including caring and leisure jobs such as care workers, nursing assistants and fitness instructors. Drawing on our progressive case for training, there is a particular need to focus on industries in which consumer standards matter but are hard for individual consumers to assess, including construction, vehicle repair and privately provided care services.

The wider institutional context

Managers' decisions about competitive strategy, and the investment in training that flows from those decisions, are shaped by the wider institutional context in which companies operate, including legal and regulatory requirements and the labour market institutions that govern employment relations.

The vital role of labour market institutions in structuring employer demand for training is often overlooked, but can include:

- **Employment protection legislation:** the ease with which employees can be recruited and dismissed may affect the extent to which employers are willing to invest in training and retraining as a response to intensified competition. In theory, where it is easier to dismiss workers, employers may have less incentive to invest in training as market conditions change.
- **Minimum wages:** higher minimum wages may encourage employers to invest in training that increases the productivity of low-skilled workers to the level required by the minimum wage (whether set as a legal minimum by the state or collectively agreed in particular sectors or occupations), whereas lower minimum wages may incentivise competition strategies based on low production costs and low-quality outputs in some sectors (Bosch, Mayhew and Gautié 2010).
- **Occupational regulation:** restricting access to occupations to those who have achieved particular qualifications and requiring a continuous updating of skills and knowledge are likely to increase training rates in the relevant occupations (Keep 2008).

- **Union density and collective bargaining:** unions may have an incentive to press employers to invest in training if it is likely to lead to improved wages and job quality. Unions may also have a particular interest in monitoring the quality of training and ensuring that it is transferable, in order to increase the employment mobility of their members. UK studies have found that training rates tend to be higher in unionised workplaces (Booth et al 2003).
- **Corporate governance:** where managers' performance is judged against indicators of short-term success, their incentive to invest in training may be reduced, since training represents an initial cost that has to be recouped over time. Studies in the UK have found some evidence for this in listed companies, although the impact is modest (Ryan et al 2010).

The operation of regulations and institutions in the UK and other European countries, and their impact on workforce training, is discussed in more detail in the following chapters. The point to stress here is the complex range of factors that shapes managers' decisions about training. Employer demand for workplace skills is framed by the competitive strategies managers adopt, which are themselves constrained by the availability of existing workforce skills, particularly management skills and knowledge; the intensity of market competition; and the broader legal and institutional settings in which managers function. When employers fail to invest in training, it is usually the result of rational decisions about the most effective competitive strategy to adopt in their particular institutional context.

1.4 The evolution of the English model of workplace training

Many English firms invest heavily in training and workforce development, and consider the continuous improvement of workforce skills and knowledge to be an integral part of the production process. The training problem in England is not that most employers fail to invest in training, but that policymakers lack the necessary tools to improve training rates and business performance in the significant minority of firms that do not train – tools that are much more readily available in some European countries. These shortfalls are partly rooted in the evolution of the English model of workplace training and the broader liberal market economic model that dates back to the industrial revolution (Deissinger 2004).

England's liberal market training model has historically rested on the consensus that training is best left to the market, and to unions where they are present. This assumption inhibited the emergence of centralised state institutions capable of developing and implementing coherent national training policies (Finegold and Soskice 1988). Since national employer and union organisations have remained relatively weak in England, they have struggled to create sophisticated training models, oblige employers and unions to participate in nationally agreed deals, or create strong sectoral bodies to promote and regulate training (Greinert 2004).

Labour market regulation has tended to be 'light touch', enabling relatively easy dismissal of workers and with limited scope for occupational regulation to drive up demand for skills. This approach has underpinned a 'voluntarist' model of training that only functions well in sectors with strong union representation or where employers have actively chosen to adopt collective measures. Training has tended to respond to employers' immediate needs, rather than forming an integral part of continuous improvements in the production process; narrow qualifications and standards have been governed largely by the market (ibid). Periodic state concern about training levels, usually in response to economic crises, has been manifested in top-down, broad-brush programmes with little involvement from employers and unions.

The first sector bodies for training, industry training boards (ITBs), were established in the 1960s. Some ITBs, such as those in construction, engineering and vehicle manufacture, were successful and formed the basis of today's sector skills councils (SSCs). They benefited from new grant and levy powers and the creation of group training associations that promote collective investment in training (Pemberton 2004). Others were limited by the lack of remit over competitive strategies and regulatory frameworks in their sectors, and the weakness of the social partners (Finegold and Soskice 1988) – both challenges that remain in today's SSCs.

In the 1970s and 1980s, the state introduced large-scale investment in training for the first time, largely in response to successive youth unemployment crises. However, funding was focused on short courses, work experience and mass training programmes targeted at young people, with relatively little concern for strategic workforce development (ibid). The Thatcher government initiated large-scale reform of the vocational education system, including attempts to upskill the working-age population through the introduction of national vocational qualifications (NVQs). Although NVQs were supposed to respond to employers' concerns about the relevance of many vocational qualifications, they were designed and introduced by a new state-funded body, the National Council for Vocational Qualifications. As they were largely designed without the input of employers or unions, their value in the labour market was, and remains, limited (Wolf, Jenkins and Vignoles 2007).

Workplace training under Labour, 1997 to 2010

Labour put adult skills centre-stage in its strategies for both national economic competitiveness and individual social inclusion and mobility. This approach emerged in part from recognition of the difficulty of shifting the deep-rooted historical and institutional factors that underpin the demand for skills and training in the UK. Examining different 'varieties of capitalism', Hall and Soskice (2001) argued that the comparative advantage of UK businesses derives from price competition, supported by a weak regulatory environment, limited welfare benefits and weak trade unions. It was argued that policies that go against the grain of a country's historical trajectory would inevitably fail, as evidenced by the mixed results of reforms to the skills system in the 1960s and 1970s (Wood 2001). This view informed the Labour government's decision to minimise intervention at the firm or sector levels. Instead, Labour pursued 'transformational' state action designed to help *individuals* achieve their potential and respond to economic uncertainty.

Labour set national targets for the proportion of the workforce that should be qualified to a particular level, which was benchmarked against other OECD countries – often referred to as the Leitch targets, after the publication of the 2006 Leitch Review of Skills. Despite dramatic improvements in the qualification levels of the working-age population (Machin 2003; UKCES 2011a), qualification levels in the UK remain some distance behind many of our competitors, particularly at the low and intermediate levels. Just under one-third of the UK workforce is not qualified to the upper secondary level (equivalent to A-level), which is roughly in line with the OECD and EU19 average, but is substantially higher than the Scandinavian countries, Germany, Japan and the US.⁵ Policymakers' concerns about similar figures in the late 1990s was compounded by data showing that qualifications are broadly correlated with employment and earnings (UKCES 2011a). Employment rates are particularly low among adults with no qualifications compared to those with just low-level (level 2) qualifications.

5 The UK does better on higher education: one-third of the working-age population holds a degree, which is higher than the OECD and EU19 averages, but is still some way below Canada, Japan and the US.

From the late 1990s, the Labour government cited the UK's relative weakness on intermediate qualifications, and evidence about the economic returns of qualifications, to advocate a strategy to increase the qualification levels of Britain's working-age population. The strategy focused primarily on academic training, including a target to increase full-time university participation to 50 per cent among 18 to 30 year olds. However, the government also expanded apprenticeships and made funding available for adult employees to obtain vocational qualifications.

The Train to Gain programme, rolled out across England in 2006, was the flagship programme for Labour's qualifications agenda in adult skills policy. Train to Gain's £925 million budget in 2008/09 represented around one-third of England's total adult skills budget (National Audit Office 2009). It provided employers with advice and subsidies to support workplace training and promote four key objectives: to provide a minimum offer of training to every employee; to advance individuals' employability and progression; to improve workplace productivity; and to stimulate employer investment in skills (Keep 2008). Initially, Train to Gain made a 'core offer' of a full level 2 qualification (almost always an NVQ) for employees without a qualification at that level, funded 100 per cent by the state, or a first and full level 3 qualification funded at 50 per cent.

Despite its considerable budget, the effectiveness of Train to Gain is highly questionable. Although the system was supposed to be employer-led, the state dictated the kind of training that employers 'needed' by only offering support for formal, low-level qualifications. Train to Gain featured little consultation with employers or unions in many industry sectors about programme design or implementation, and as a result many employers had little buy-in to the core offer. Weak union involvement meant that employees had only limited channels to communicate whether or not the featured qualifications would support their employability and progression. Labour may have opted for a state-led system because of the weakness of sector bodies and national employer and union forums. However, while this approach made it easier to deliver qualifications in the short run, it made it harder to embed training, continuous workforce development and professional competence in the core activities of many employers.

Learners' needs for training that supports mobility and progression in the labour market was also undermined by Train to Gain's focus on low and intermediate-level NVQs, which have lower wage returns than other qualifications, including other level 2 and 3 vocational qualifications such as BTECs and City & Guilds (London Economics 2011; Greenwood et al 2007).⁶ The low wage return of NVQs derives from the fact that they tend to accredit existing skills rather than offer training that develops new skills, suggesting that they are unlikely to deliver a significant increase in productivity (Delorenzi 2007). NVQs are also often narrow, task-based qualifications that do little to develop broader contextual knowledge or transferable skills, and so are unlikely to help low-wage workers move to higher-paying jobs.

Labour initially drew on theories about the higher wage returns associated with vocational qualifications gained in the workplace, but the latest evidence shows there is no longer any significant difference in returns between level 2 or 3 NVQs gained in the workplace or through full-time learning (London Economics 2011). Another explanation for favouring NVQs is their low cost. Learners' needs would have been better served by funding GCSEs and high-quality vocational courses outside the workplace for people lacking level 2 qualifications, but this would have been much more expensive.

6 Wage returns vary considerably by gender, sector, how a qualification is gained and who pays for it. Some low-level NVQs have positive wage returns for some groups of learners (London Economics 2011).

Relying on adult skills programmes like Train to Gain to boost the economic competitiveness of English firms also signalled a lack of engagement with some of the broader challenges faced by employers. The Leitch Review used evidence that up to one-fifth of the UK's relative productivity weakness compared to France and Germany could be explained by its relatively weak skills base to argue for greater investment in skills supply (Leitch 2006; Keep, Mayhew and Payne 2006). However, four-fifths of the productivity gap is caused by other factors, especially higher levels of physical capital intensity (underpinned by various forms of state-backed investment) in the US, France and Germany. Higher skill levels make only a modest contribution to Germany's outperformance of the UK (Mason et al 2008).

Reforms to adult skills under Labour also sought to build institutions and strengthen capacity at the sector level. Building on the national training organisations set up under the previous government, SSCs were created in 2002 to articulate employer demand for skills (for example, to state funding agencies), reduce skills shortages and improve productivity by driving up skill levels. There are currently 22 SSCs operating in the UK (at the time of publication), which cover around 80 per cent of employers (UKCES 2011a). The effectiveness of SSCs varies considerably; the model is more effective in sectors with a history of collective employer investment in training, such as construction and automotive manufacturing, or sectors dominated by graduates and high-level occupations, such as the creative industries.

The weakness of many SSCs stems from three central challenges. First, these supposedly employer-led bodies are largely funded by the state, have their strategic objectives set by the state and are expected to help deliver the state's skills policy (Payne 2007; Gospel and Foreman 2006). This difference in motivations has created serious challenges in engaging with employers in SSCs that have not developed out of existing employer bodies. In many SSCs, boards are often dominated by larger firms and those already committed to training, while there is a lack of awareness of, and interest in, their activities among smaller employers (Payne 2007; Jaffa 2009).

Second, like ITBs, their effectiveness is limited by their lack of remit to consider the wider issues of employment relations, labour market regulation, work organisation and business strategies within their sector. SSCs can only articulate employer demand for skills within the parameters of their sector's existing business models. This approach has been consistently unable to ensure that improved skill supply is matched by greater demand for, and utilisation of, skills in the workplace. SSCs are not helped in this task by the weak union presence on their boards, where only one seat is reserved for a union representative.

Third, many SSCs lack the resources and responsibilities to become powerful sector bodies. All state skills funding is routed through the national Skills Funding Agency, so only the SSC (ConstructionSkills) that still operates a compulsory levy and grant system has any real independent financial clout (although some do have smaller additional income sources). SSCs are only able to approve vocational qualifications developed by private sector awarding bodies, and all qualifications are regulated by Ofqual, a quango. Real employer involvement in the process of qualification development is therefore limited in many sectors.

These institutional reforms contributed to the increasing complexity of a vocational education and training system that operates largely in isolation from its key stakeholders: employers and learners. Curricula development, quality assurance processes, assessment and decisions about how public money is allocated are all the responsibility of state-

funded bodies and providers. Employers can initiate a change to a qualification, but after that the training industry takes over. Qualifications are developed by awarding bodies, which are private companies and charities, and approved by SSCs before they are submitted to Ofqual for accreditation. Funding flows from the central government to the Skills Funding Agency, another national quango, which approves courses for receipt of public funds and pays training providers directly.

During its last years in government, Labour recognised some of these challenges and made improvements, including strengthening the apprenticeship frameworks and swiftly recalibrating adult skills policy and vision in response to the 2008–09 recession. These measures included increasing the flexibility of Train to Gain and introducing a new strategic approach to skills as part of the new ‘industrial activism’. Employees in larger firms were granted a right to request time off for training in 2010. Policy documents from the mid-2000s also increasingly reflected a desire to raise the demand for skills, although this rhetoric was not reflected in policy in any significant way. More broadly, Labour was right to make the case for the state’s role in promoting training and shaping the skills system, and to attempt to reinvigorate sectoral bodies. While not perfect, SSCs provide a framework from which to build stronger, more independent sector-based organisations.

Labour’s approach promoted the government’s role in determining the organisation, management and delivery of workforce training. But the strong focus on skills as the solution to weak productivity, low wages and poor progression opportunities led to an over-reliance on the state to fill the gap left by the market and overplayed the ability of skills policy alone to achieve economic competitiveness and social justice. The effectiveness of Labour’s adult skills reform programme was limited by a reluctance to invest in difficult, time-consuming and imperfect institution building (no doubt driven by perceived past failures) and an unwillingness to critically challenge the wider context in which the demand for skills is generated. These shortcomings made it much harder for the government to maximise the returns on its increased investment in adult skills and training.

Skills policy under the Coalition

The Coalition has broadly retained Labour’s approach to adult skills, including the considerable expectations it continues to place on skills policy (see BIS 2010). Sensibly, the government is seeking to avoid significant institutional reorganisation of the sort that tended to aggrieve employers and training providers under the previous Labour government. But policy documents produced so far suggest little new thinking around adult skills, with policies drawn largely from the previous Labour government and the Conservative governments of the 1980s and 1990s.

The key change under the Coalition is the shrinking funding available for adult skills, which will fall in cash terms over the current spending review period. This budget decrease has necessitated a restructuring of funding for adult skills courses, with greater focus placed on the least qualified and young people. Employers will be expected to co-fund level 2 courses for people over 24, and income-contingent loans are being introduced for level 3 courses (BIS 2011). These funding arrangements continue the mixing of social inclusion goals and job-related training programmes that undermined the effectiveness of both the youth training programmes of the 1980s and Train to Gain. Part of the budget savings in adult skills will be delivered by cancelling Train to Gain, although around £250 million of the savings have been transferred to the apprenticeships budget, with young people’s and adult apprenticeships forming a central plank of the Coalition’s skills policy.⁷

7 For a discussion of apprenticeship policy under Labour and the Coalition, see Dolphin and Lanning (2011).

Table 1.1
Post-19 skills funding,
2011/12 to 2013/14
(£ millions)

	2011/12	2012/13	2013/14
Adult skills	2,834	2,699	2,497
Of which are 19+ apprenticeships	644	698	726
Other adult learning*	344	346	341
Learner support and guidance	232	248	263
Skills infrastructure†	62	71	55
Capital grants	305	279	225
Total Skills Funding Agency	3,777	3,643	3,381
Support for adult skills sector‡	146	156	154
Further education loans	-	-	129
Total post-19 skills funding	3,924	3,796	3,665

Source: BIS 2011

* Includes support for people in custody and non-vocational adult learning.

† Includes the National Apprenticeship Service and the Learning and Skills Improvement Service.

‡ Includes funding for the UK Commission for Employment and Skills and Unionlearn, which is not routed through the Skills Funding Agency.

Coalition policy documents focus on the need to share the cost of training between the state, employers and individuals, but beyond the use of income-contingent loans, there are few concrete proposals for achieving this – and particularly for encouraging employers to invest in training. This is partly because the Coalition has made a partial return to the market-based model for the delivery of workplace training. The assumption underlying the government's skills strategy document, *Skills for Growth* (BIS 2010), is that central planning and control hampers employers' pent-up demand and willingness to invest in training (Payne and Keep 2011). As a result, the Coalition has ended the Leitch targets, which stipulated the proportion of the workforce that should be qualified to particular levels, and removed any central planning from the funding system.

The adult skills budget⁸ is now routed directly to providers, through the Skills Funding Agency, according to learner demand in the previous year – an attempt to create a genuine market in training. The Coalition is also introducing more freedoms for providers to respond to local needs, and reducing the regulation of further education (FE) colleges and training providers. While some of these measures are positive, particularly reducing the regulatory burdens on providers and ending top-down targets, the Coalition is not able to provide any evidence for its theories on pent-up demand. A purely market-led approach gives state actors no strategic role in the skills system, and therefore few tools to drive long-term improvements in workforce development – an area in which the market has traditionally not delivered.

The Coalition announced investment in two new programmes that seek to innovate in the delivery and organisation of skills. The £50 million Growth and Innovation Fund supports new projects that aim to stimulate employer demand for training, for example, by developing voluntary occupational regulations or providing leadership and management training (UKCES 2011b). The fund can increase employer commitment to training, but its impact may be limited by its relatively small budget. The larger Employer Ownership

8 Adult skills funding includes apprenticeships for people aged 19 and above, adult basic skills and the entitlement to funding for a first level 2 qualification (equivalent to GCSEs at grade A to C) for adults aged 19 to 24, as well as job-related training for adults delivered in partnership with employers.

Programme will route £250 million of the adult skills budget directly to employers over two years, to spend on their own training. While employers will have more control over the provision of training, the impact on workforce development is likely to be limited if no conditions are attached to the public funding and if unions or other employee representatives are not involved in negotiations about how new funding for training is integrated into wider questions of work organisation and competitive strategy.

Although the Coalition is not embarking on a major reorganisation of the skills infrastructure, it has made substantial changes to the economic development system, which have implications for skills policy. The closure of regional development agencies (RDAs), which were previously responsible for strategic skills policy, transferred many of their key roles to central government departments. This shift has included many of the drivers that shape the regional business environment within which demand for skills is generated, such as investment, innovation, access to finance and business support (Payne and Keep 2011). RDAs have been replaced by local economic partnerships (LEPs), which operate across functional economic areas rather than entire regions. LEPs are expected to work with local training providers and employers to generate demand for skills in line with local priorities, but have no responsibility for skills funding, no power over local training providers and no delivery responsibilities.

Overall, the Coalition has broadly retained Labour's conception of skills as a vital precursor to national economic competitiveness and individual labour market mobility – one that lacks a sophisticated analysis of the drivers of skill demand. The shift in Coalition policy comes from a reduction in skills funding and the partial return to a market-led model that has historically failed to generate increases in workforce skills in low-training firms. While there are areas of innovation in the Coalition's skills policy, a coherent policy framework to improve employer investment in training where it is currently weak has not yet emerged.

Conclusion

This chapter has argued that low employer commitment to skills and workforce development in a significant proportion of firms raises concerns about poor job quality, business performance and, in some sectors, sub-standard products and services. Given that many of these jobs are low paid, it also has costs for the state in tax credits to support low earners. We have argued that state-led workforce development programmes have been disappointing due to their principal focus on individuals, rather than firms and sectors, with decisions about training and workforce development largely left to the market. A weak and unrepresentative institutional environment – and a tendency to focus on increasing the numbers of adults with qualifications to the detriment of high-quality vocational learning – further undermined employers' (and other stakeholders') involvement in and commitment to skills policy and funding.

2. GENERATING COLLECTIVE COMMITMENT TO SKILLS

This chapter explores institutional and regulatory reforms that could help employers provide more opportunities for their staff to use and develop their skills. This goal will require a radical shift away from centralised skills bodies and state-led adult skills interventions towards collaborative local- and sector-level programmes with a remit to influence firms' competitive strategies. This chapter sets out evidence from other northern European countries on how this could be achieved.

In other northern European countries, the state plays a much more active role to protect employees and consumers from unscrupulous employers and irresponsible practitioners. We show that 'smart' labour market regulation, particularly occupational licensing, is a key reason why workforce training levels are higher in continental Europe. Regulation is not a cure-all, however, and we argue that the impact is likely to be limited in England unless combined with the more active models of business support available elsewhere. The final section explores the key ingredients of strong and responsive vocational education and training systems in other northern European countries. While the state provides a stronger regulatory framework in these countries, it is far less dominant in the 'governance' of skills policy. We argue that the involvement of key stakeholders throughout the decision-making processes in these countries generates collective commitment to skills policy and funding from employers, citizens and the state.

2.1 Towards a well-skilled society

The vision of England as a knowledge economy has little relation to the experience of the significant minority of workers in low-skilled, low-paid jobs, many of which offer few opportunities for development. These jobs, most of which are in domestically traded service industries that face almost no global competition, are unlikely to disappear. Ensuring that everybody participates in and benefits from growth requires a vision of progress based not on a high-skilled but a 'well-skilled' society (Vandenbroucke 2011), in which people's talents are used and cultivated across all occupations, sectors and regions.

Many other northern European economies are closer to this model than England. For example, while nearly half of UK employers do not require post-secondary education, this is the case for only 29 per cent of German firms and 24 per cent of French firms, and levels of innovation in processes and product market strategies have been consistently higher in firms in France and the German-speaking and Scandinavian countries than in the UK (Lent and Nash 2011). It is not just the mix of sectors that determines employer demand for skills: in other northern European countries, many jobs, including some that we dismiss as low skilled or 'bad', require a deeper level of skill than they do in the UK. This is reflected in the higher levels of workforce training and in the much deeper content of vocational education and training (see box 2.1; Brockmann et al 2011).

The deeper skill content of many jobs is supported by institutional and regulatory environments that encourage 'high-road' competitive strategies. This enables the German-speaking and Scandinavian countries to compete in higher-value global markets in sectors such as manufacturing that are open to international competition, and reduces the externalised costs from low-training firms on employees and consumers. Greater employer commitment to training and workforce development means that citizens in these countries receive a better service in domestic or 'non-tradeable' markets, such as social care, construction and leisure, while workers in those sectors also have more opportunities to use and develop their skills.

Box 2.1: A deeper view of skill: the case of bricklayers in Europe

Many jobs that are relatively narrow in the UK are designed in other northern European countries in ways that provide more opportunities for workers to use and develop their skills. Reflecting the needs of the market, vocational qualifications in England are typically job-based and focused on the ability to perform particular tasks. For example, bricklayers in England tend to carry out the tasks of laying bricks and blocks, and wages are linked to these outputs. The most frequently used vocational qualification, Bricklaying NVQ level 2, principally tests whether the individual can lay bricks and conforms to general workplace safety procedures. Obtaining the qualification may not involve any additional education or training at all, as this is optional.

In Germany, a bricklayer will often be expected to develop and utilise broader skills in carpentry and civil engineering, to work with a wide range of materials, to set up and manage construction sites, and to work both collaboratively and independently. Bricklayers must complete substantial educational requirements to obtain the qualification, which imparts knowledge, technical expertise and personal and social abilities. They are considered skilled workers, and the qualification leads to relatively high labour market returns. In many other northern European countries, vocational education is not just seen as a way of preparing individuals for a specific occupation, but also for employment and citizenship more broadly. Bricklaying and other qualifications also include substantial elements of theory and general education, including related academic subjects such as maths and physics. This approach supports labour market mobility and progression, which many English vocational qualifications fail to do.

Source: Clarke 2011

Labour's reluctance to invest in labour market and institutional reform rested on the belief that attempts to encourage alternative forms of comparative advantage would inevitably fail. However, the experiences of some other northern European countries suggest that states can support new forms of comparative advantage while building on their historical and cultural traditions. In the last decade Germany, the archetypal coordinated market economy, has moved towards the Anglo-Saxon model with reforms designed to increase labour market flexibility, which has fostered the development of a significant low-wage sector (Kenworthy 2011). In recent years Ireland emulated the Nordic model of skills provision with some success. Drawing on Catholic social thinking that emphasised consensual approaches to resolving class conflict, Irish trade union leaders in the 1980s promoted a social partnership approach to vocational education and training that led to a revival of apprenticeships, although this has since been shaken by the financial crisis (O'Connor 2009). Grand transformation of the sort promised by New Labour is unlikely to be feasible, through skills or any other policy. The lesson from Germany and Ireland is that governments cannot simply import alternative economic and institutional models, but they can – and should – draw inspiration from them.

2.2 'Smart' labour market regulation

'Smart' labour market regulation can help create incentives for employers to invest in workforce training. This section presents evidence that moderate levels of employment protection and occupational licensing can help, respectively, to promote long-term

investment in staff and support workforce development. Both forms of regulation also have a role in improving business standards and performance.

Stronger regulatory frameworks in northern Europe reflect a greater willingness to protect the interests of employees and consumers, but must also be seen in the wider institutional context. We argue that targeted legislation can support efforts to raise standards in sectors in which consumer wellbeing is an immediate concern, but that this legislation must be part of a larger effort to improve employment relations and embed institutional change. We also explore some of the concerns that UK policymakers and businesses have raised about the negative impact of regulation, and find that the *type* of regulation is more important than the *quantity*, and that the right mix of policies can help avoid undesirable trade-offs.

Employment protection and ‘functional flexibility’

The debate on regulation in the UK has become stale. There is a common assumption that all forms of labour market regulation, because they may have time and cost implications for employers, are likely to have a negative impact on levels of training, innovation, employment and growth. This perspective has sometimes justified the removal of measures meant to safeguard the interests of employees and consumers. Other people have attempted to defend existing protections, but often overstate what regulation can achieve. There is little useful debate on either side about what regulation is used for, or how it could work best in England.

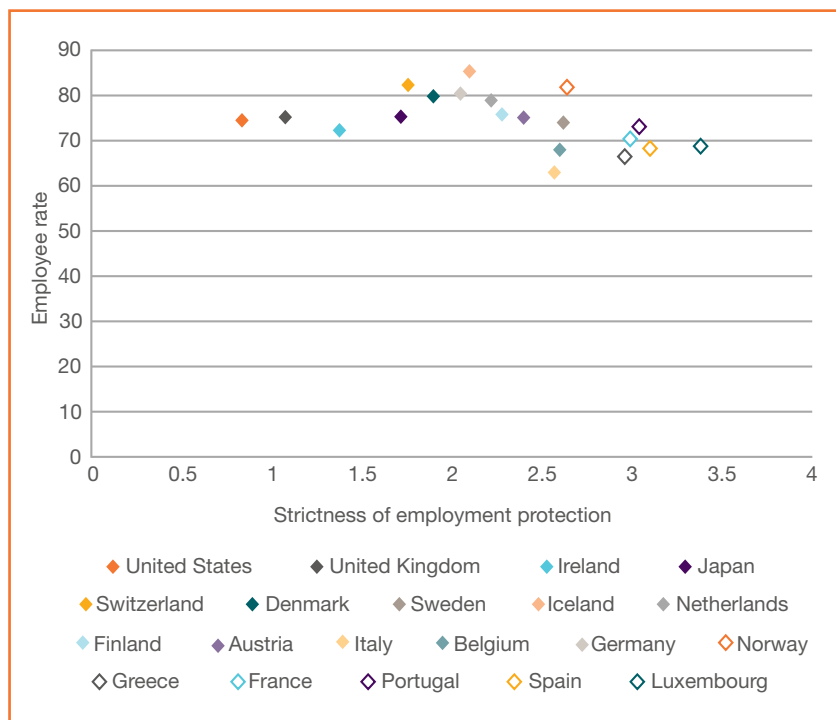
In the UK, a key aim of deregulation is to help employers respond to changing economic conditions by increasing labour market flexibility. Reforms to UK employment law since the 1970s have made it easier and cheaper to hire and fire workers and to contract on a short-term basis, and the UK now has the third-lowest levels of employment protection legislation in the OECD, behind only the US and Canada. Proposals to cut ‘red tape’ also form a key plank of the Coalition’s strategy to return the economy to growth and high employment, including a move to double the qualifying period for the right to claim unfair dismissal from one year to two years, a consultation on ending unfair dismissal rights for staff in firms with fewer than ten people, and a review on whether to reduce the 90-day consultation period on collective redundancies to as little as 30 days.⁹

The UK approach has been to support ‘numerical’ flexibility through deregulation, but firms can also respond to economic change through wage flexibility, which is often negotiated through social partners, or functional flexibility, where workers are trained in a range of skills that enable them to be redeployed. Employment protection can promote functional flexibility. Employers who cannot easily dismiss staff or close firms in response to economic shocks or shifts in demand have a greater incentive to innovate in product development and work organisation in order to stay competitive. Conversely, deregulation can undermine this approach. Reforms in the UK appear to have reduced incentives for employers to invest in workforce skills and retain staff, as many firms instead prefer to compete for the best recruits. Various studies have found that the use of more irregular employment patterns is associated with lower levels of training (see for example Evans 1990; Arulampalam and Booth 1998; Michie and Sheehan-Quinn 2001).

9 See Vince Cable’s speech at the Engineering Employers’ Federation, 23 November 2011. http://www.bis.gov.uk/news/speeches/vince-cable-reforming-employment-relations?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+bis-speeches+%28BIS+Speeches%29.

Labour market regulations should be judged on a case-by-case basis; some have a positive impact on employment and growth, while others are more problematic (Reed 2010). Mainstream assumptions about the negative impact of employment protection on growth and employment appear to be overly simplistic. Higher levels of labour productivity, innovation and training in many northern European countries with higher levels of employment protection than the UK demonstrate that labour market regulation need not strangle growth. Recent research has found a positive relationship between productivity growth and employment protection legislation (ibid). There is no relationship between levels of employment protection and aggregate employment rates in different countries, as figure 2.1 below shows. Despite having higher levels of employment protection, the Netherlands, Austria and Denmark have had consistently lower youth unemployment rates than the UK, while Germany, Sweden and Switzerland have achieved better outcomes for low-skilled workers (Coats 2006).

Figure 2.1
Strictness of employment protection and employment rate, 2008



Sources: OECD and Eurostat 2008

These findings must be analysed in the context of these countries' wider institutional environments: new legislation is unlikely to bring about an immediate shift in UK business models. Higher levels of training and functional flexibility in more regulated economies are also underpinned by stronger employment relations, particularly social partnerships that promote skills-led strategies in the interests of employees and consumers. The combination of targeted legislation and broader social policies is also vital in mitigating the unintended consequences of some regulation. Strong employment protection in Germany and some southern European countries has resulted in a two-tier labour market that favours unionised and permanent employees. Coats (2006) argues that the Nordic countries' mixture of moderate employment protection – including measures to ensure temporary, part-time and non-unionised workers have similar rights to full-time

and permanent workers – combined with low levels of product market regulation and active labour market policies, support strong growth, good quality employment and high employment rates. He argues that while there needs to be enough flexibility to make sure that necessary restructuring can take place, the UK could afford to make it a little more difficult and more expensive to dismiss workers in order to create a better balance between the interests of employers and employees.

This evidence suggests the need for a more nuanced debate on employment protection, and on the aims and impact of labour market regulation more broadly. Given that the UK already has one of the lowest levels of employment protection legislation in the developed world, it is not clear that more deregulation will bring further benefits. The proposed changes to employment law risk taking certain sectors of the UK economy further down a cost-based, low-skill road. These proposals do not chime with government pronouncements elsewhere about the importance of how employers manage skills and invest in staff development. At the same time, the government has not been able to provide any evidence that greater labour market flexibility would have a significant impact on employment rates.

Legislating training requirements: encouraging a self-regulatory ethos?

Greater use of legal training requirements is a key reason for higher qualification and training rates in other European countries, where they form part of an institutional landscape that is designed to raise product and service quality by encouraging professional competence and knowledge. By increasing average skill levels in a sector, training requirements such as licences to practice may, depending on the quality of the training, improve the quality of the products or services and encourage a self-regulatory professional ethos among practitioners (Steedman, Gospel and Ryan 1999). Training requirements are designed to protect citizens from irresponsible practitioners, or, as one Australian state government website puts it, to ‘weed out shonky operators in the marketplace’.¹⁰

Just under 14 per cent of workers in the UK are required to have a licence in order to practice (Humphris et al 2009). Licensing in the UK is particularly prevalent in higher-skilled occupations and, in the case of the professions with chartered status, has often been introduced by industry. In recent years, concern about service standards has also led to the introduction of training requirements in lower-level occupations such as security, fitness and social care. A 2009 European Union directive made it compulsory for HGV drivers to hold a licence, which included requirements for continuing professional development to ensure up-to-date knowledge in health, road safety and logistics.

Licensing in sectors in which employers are committed to high-skill competitive strategies is often very effective – and is associated with hourly wage returns of up to 13 per cent for licensed workers (Humphris et al 2009). Reflecting the weakness of the broader institutional context, however, the impact at the lower end of the labour market is limited. Evidence from the fitness and social care industries suggests that while licensing increases levels of training, the impact on professional competence and job quality is often limited by the poor quality of training and the failure of managers to utilise and develop new workforce skills (see box 2.2).

¹⁰ http://www.fairtrading.nsw.gov.au/Businesses/Business_licensing.html

Box 2.2: The impact of training requirements in fitness and care in the UK

The recent introduction of training requirements in fitness and social care demonstrate that, while legislation can be a useful tool, the impact is limited unless employers are committed to skills and training. The fitness industry introduced a Register of Exercise Professionals that requires registered fitness instructors to be qualified to level 2. The NHS has also indirectly implemented training requirements, as GPs will only refer patients to fitness instructors who are qualified to level 3. Training requirements were introduced in social care by the Labour government, which mandated that all staff must receive induction training, that a proportion of staff must be trained to NVQ levels 2 and 3, and that staff in certain positions hold an NVQ level 4.

In both sectors, these measures increased the levels of training and qualifications, albeit more so in social care, where the requirements were statutory (see Lloyd 2003, 2007; Gospel and Lewis 2010). However, three core problems have limited the effectiveness of these regulations:

- **The weakness of the qualification requirements.** The relatively low-level and voluntary nature of the requirements in the fitness industry¹¹ meant that levels of training among fitness instructors were extremely variable across different leisure centres (Lloyd 2003, 2007). Although the statutory underpinning in social care resulted in greater uniformity in training levels across the sector, the requirements were at a much lower level of professional competence than would be expected in other countries.¹²
- **Employers' competition strategies and human resource practices.** Studies have found that poor management practices in childcare and social care often mean that staff skills are under-utilised, and that there are few opportunities for continuing skills development (Cooke and Lawton 2008, Gospel and Lewis 2010). Lloyd (2003) found that, despite NHS concerns about consumer safety, leisure centre managers placed little importance on the technical competence of fitness instructors. As a result, training varied considerably.
- **Limited wage returns for licensed practitioners.** Lloyd (2007) concluded that non-existent wage returns in the leisure industry were due to the large supply of young qualified fitness instructors, which was also partly responsible for many managers' complacency about skill development, career progression and job quality. In the care industry, funding is restricted by what local authorities and individuals are able to pay. This may explain why employees who had gained an NVQ level 2 qualification by 2006/07 were only being paid 15p per hour more than other workers, and those with an NVQ level 3 only 20p more (Eborall and Griffiths 2008).

11 Lloyd (2003) compares England, where the minimum requirements are a two-week course at level 2 or a 12-week course at level 3, with France, where all fitness instructors must complete a two-year, full-time course at level 3.

12 Gospel et al (2011) compare England, where the minimum requirements for an elderly care assistant are just 24 hours of induction training and three days paid training a year, with extensive initial and continuing vocational training for care workers in Japan and Germany. For example in Germany, at the top occupational level, elderly care workers train for three years, with 4,600 hours of theoretical education, off-the-job and practical training at work under the supervision of a qualified mentor. At the lower end, elderly care assistants in Germany receive less training, but still substantially more than in England. England is the only country where care workers are not required to have any underpinning knowledge.

In mainland Europe, specific qualifications are a prerequisite across a far more extensive range of occupations than in the UK, from skilled manual workers to hairdressers and secretaries. European states also often express minimum professional standards in terms of the proportion of staff within each organisation that should be trained to deliver the desired quality of service. The level of training requirements is much higher in these countries and often includes requirements for continuing professional development. The high quality and relevance of training programmes is reinforced by the active involvement of both employers and employees in their design.

This wider use of training requirements contrasts with the English approach in much of the private sector, and increasingly the public sector, to regulate quality through consumer 'choice'. State intervention, when present, has most often been based on standard-setting and inspection – an approach that can lead to standardisation and a levelling down as much as up, if organisations simply comply with the minimum requirements. Other English-speaking countries, such as Australia and the US, also make greater use of occupational licensing to set standards.¹³ Licensing arrangements in the US and Australia vary between states, but generally include occupations requiring any medical, financial or legal knowledge, as well as a wide range of occupations in the construction, security, motor vehicle dealership and repair industries, and services requiring specialist knowledge such as business advisors, employment brokers, and real estate and travel agents.¹⁴

There are costs – both financial and temporal – to establishing licensing systems. With few requirements for employers to train, low levels of regulation in the private sector have helped keep costs low for UK consumers. However, there are sectors for which cost is unlikely to be the only, or even the primary, basis for choice, such as childcare or care for the elderly. The rationale for legislating training requirements is greatest in sectors where standards pose an immediate risk to employee or consumer wellbeing, particularly in positions where medical, legal, financial or technical knowledge is required. Unreliable service in sectors such as construction can also suppress demand, and improvements in professional competence may actually boost consumers' willingness to pay (Steedman, Gospel and Ryan 1999).

The strength and level at which the regulation is set is important: in a review of the UK evidence, Forth et al (2011) found that the impact of licensing on wage and qualification levels is strongest where the entry requirements are higher and apply to a larger section of the workforce. Lesser forms of regulation that impose training requirements, such as certification (where a practitioner may voluntarily sign up to be certified by a regulatory body) and accreditation (where a professional body determines entry criteria, rather than the state) may also raise standards, but are generally most effective in well-coordinated sectors that have a widespread commitment to the system and an industry body that is able to ensure compliance.

Legislated training requirements can improve workers' and employers' commitment to training and development. The requirements can lessen the fear of poaching that can discourage some employers from investing in training despite concerns about workplace standards. For individuals, the incentives to invest time and resources in training depend on the opportunities it provides in the labour market (Keep 2009). Occupational licensing

13 In the US, for example, 29 per cent of workers are required to have a licence in order to practice, compared to 14 per cent in the UK (Humphris et al 2009).

14 See for example http://www.ors.act.gov.au/industry/licensing_and_permits.

ties vocational qualifications to job entry and helps to explain why educational participation is higher among young people in other northern European countries. The wage returns associated with licensed occupations also provide an incentive to undertake training. Most studies attribute the wage effect to limiting the number of entrants to an occupation and so 'fencing out' competition by unlicensed individuals (Humphris et al 2009; Kleiner and Krueger 2009).

As with employment protection legislation, a key concern is that occupational licensing can make it more difficult for low-skilled or inexperienced jobseekers to find work, as requirements for higher levels of professional competence create 'barriers to entry'. Forth et al (2011) found no evidence of negative effects on employment levels from existing licensing requirements in the UK. However, some countries do struggle with a so-called insider-outsider problem. In France, for example, high youth unemployment is associated with the high level of experience required to enter employment. In the German-speaking and Nordic countries, strong initial vocational education and training systems play an important role in providing opportunities for young people to enter licensed occupations. In some countries, most notably Denmark, well-resourced active labour market policies also support adult labour market mobility and progression. Once again, the involvement of employers and other stakeholders in the design of training programmes is crucial to ensure they provide clear entry routes and have currency in the labour market. We return to this point in section 2.4.

Many other countries, including other English-speaking nations, protect consumers in a far wider range of sectors than is the case in the UK. Introducing and extending statutory training requirements could be a useful tool to raise workplace standards in sectors where low professional competence poses a risk to citizens' wellbeing. Occupational licensing should be instituted on a case-by-case basis and used to raise skill levels in lower-skilled occupations, supported by greater focus on the importance of professional pride and competence across a range of occupations, rather than a privileged group of 'professions'. This approach should avoid the creation of a limited set of privileged professions that could operate as 'cliques', artificially driving up wages and restricting access for particular groups.

Regulation is not a panacea, however, and particularly not in the English context. First, poor job quality and low pay are prevalent in some firms, but their impact on consumer wellbeing may be insufficient to warrant legislation. Second, the limited impact of licensing at the lower end of the labour market suggests that a regulatory approach, as well as being restricted to sectors in which there is a clear case for intervention, should be combined with support for employers to overcome these issues. The next section explores what this support might look like.

2.3 Supporting firms to improve business performance and work organisation

The potential impact of regulation on workforce development and training is limited in the English context by management practices and low commitment to skills-led business strategies among low-training firms. This section explores how to support low-training employers to integrate social and organisational innovation, and training decisions, into their competitive strategies.

While there are external constraints, managers have choices about which markets they compete in and how they define the basis of competition. The skills and information

available to senior managers affect their ability to adopt particular competitive strategies or change existing ones, for example in response to intensified competition in their existing product markets (Mason 2005). Several comparative studies of UK and northern European firms have found that UK businesses adopted innovative practices later, experienced more difficulties in doing so, and achieved poorer results because they lacked sufficient management skills to effectively combine, utilise and manage their staff's skills in ways that added value (Coats 2006).

A number of countries have experimented with attempts to influence employers' choices about how they compete, and to improve human resource practices to make sure that workforce skills are developed and utilised. In Norway, Germany and Ireland the agenda has largely been driven and developed by unions and employer associations working in partnership. In Finland, Australia and Scotland projects have been developed and resourced by the state. In all cases, these policies have been motivated by a dual concern for job quality and improved business performance.

In the Nordic countries, specialist researchers and consultants were deployed to help businesses rethink their product market strategies and the nature of their work processes, training and job design in ways that improve productivity and performance, and provide more opportunities for staff. Using holistic and tailored approaches, they improved management and leadership, organisational culture, and human resources (HR) practice. In one example from Finland, kitchen workers in a municipal meals service were involved in planning meals, purchasing and budgeting; the result was increased productivity, lower procurement costs and improved staff motivation and skills utilisation (Keep and Payne 2002). This demonstrates that, even in low-skilled sectors such as the fast food industry, jobs can be designed in ways that support staff development and improve customer service. Summarising the key lessons from research in the Nordic countries, Payne (2011) noted that projects should secure managers' commitment by starting with the problem facing the employer (low productivity, poor market performance, high staff turnover and so forth) and ensure the whole workforce is involved in the discussion, with union involvement where possible.

The Nordic countries may provide a more hospitable climate for policies that consider employment relations and the workplace legitimate realms for policymaking (Keep and Payne 2002). These countries are characterised by stronger unions; a more supportive economic framework, including access to long-term finance; and corporate governance models that limit short-term cost pressures from shareholders, allowing companies to innovate and take risks. However, Scotland's recent experience suggests that interventions with firms operating in more deregulated economies can make progress, and that FE and higher education (HE) organisations could play a key role in providing high-quality, tailored business support (see box 2.3). In this scenario, further education colleges and universities require the flexibility, capacity and resources to support employers, in consultation with employees and other stakeholders, to design high-quality training programmes and deliver off-the-job training components.

Box 2.3: Scottish skills utilisation pilots

In the early 2000s the Scottish government began to highlight the need for a greater focus on employer demand for skills, citing frustration that significant investment in education and skills had not resulted in a shift towards a more skilled economy. They have since developed approaches, through a series of pilots run by FE and HE institutions, designed to ‘increase performance and productivity, job satisfaction and employee wellbeing, and stimulate investment, enterprise and innovation’ (see Payne 2011).

The Scottish pilots target a range of sectors, including a project to improve skills utilisation and service quality among care providers, led by the Open University, and another that helps a manufacturing company, a service retailer and a ski resort develop more innovative approaches to identifying new market opportunities. The Glasgow School of Art provides tailored training and support for the organisations and encourages them to draw on the skills, expertise and knowledge of their staff, for example by setting up internal innovation teams made up of employees and management. Another project developed a network of local business support that offered advice and expertise on workforce development, research and development, innovation, and professional development, including leadership and management training.

The pilots are not without challenges. In an interim evaluation of these pilots, Payne (ibid) found that FE and HE institutions currently lack capacity and expertise in workplace development and that low levels of institutional collaboration in the UK education system mean many partnerships must be built from scratch. However, the evaluation concluded that FE and HE institutions, if supported with resources and capacity building over a realistic timeframe, could play a key role in improving employers’ skills utilisation by filling a gap in the lack of tailored business services in the UK.

There are also successful examples from England. The NHS Skills Escalator programme demonstrated that providing ongoing opportunities for training and workforce development for public service practitioners can improve service quality and drive cost savings. Cox (2007) found that workplaces involved in the Skills Escalator projects provided a more ‘expansive’ environment for employees. Managers provided recognition and support for employees to learn in the workplace, and facilitated formal courses, mentoring and clinical supervision, and opportunities for progression, depending on organisational needs. As in Scotland, the employers worked in partnership with local HE and FE providers. Cox found that the relatively hollow nature of competence-based NVQs was less of a problem in these workplaces. The work-based development opportunities guaranteed that employees developed the broad knowledge that in many other countries would be acquired through initial qualifications and training programmes. This model provides an alternative to the reliance in recent years on performance targets and user choice to improve standards in public services.

The evidence presented here suggests that locally delivered, tailored approaches to business support can improve workforce training. However, without the wider institutional fabric to support and deliver such approaches, the impact is likely to be limited, in the private sector at least. In the Scandinavian countries, Germany and – until the recent

financial crisis, Ireland – employers have benefited from networks of firms, researchers, trades unions, employer associations and development agencies, brought together by the state, which disseminate and encourage innovative learning and practice within and between firms (Keep, Mayhew and Payne 2006). These rich networks help explain why the commitment to a well-skilled society is more deeply embedded in the more ‘vocational’ economies of other northern European countries. The following section explores the key features of these institutions.

2.4 Generating commitment to a well-skilled society: building England’s institutional fabric

While the state plays a stronger regulatory role in northern European countries, guaranteeing high-quality training and services where it counts, it controls far less when it comes to skills policy and funding decisions. This section explores how to build a more supportive institutional environment that provides relevant skills for business, responds to and shapes changing economic circumstances and helps individuals enter and progress in the labour market with high-quality training programmes.

Drawing on best practice from other European countries,¹⁵ we show that social partnership is a key feature of strong vocational education and training systems. Their experiences suggest that building England’s institutional fabric will require an evolutionary approach to institutional change that engages key stakeholders in skills policy and practice; devolves decision-making to sectors and localities; and builds partnerships with existing intermediary bodies with a remit to improve both the supply and demand for skills.

Social partnership: involving key stakeholders in skills policy and practice

In contrast to the frequent top-down institutional reorganisations in England, the decision-making bodies governing vocational education and training in other northern European countries have evolved over time through attempts to balance the conflicting interests in the skills system, and to support both employers and employees to cope with economic change. Industrialisation arrived later in continental Europe, and was necessarily based on a skilled workforce in an attempt to seek a competitive advantage over Britain. As a result, in many European countries, strong central institutions, including the state, employer associations and unions, have a history of, and a recognised role in, collectively shaping the provision of training (Greiner 2004).

These different interests are reflected in the tripartite governance of the skills system, in which representatives of employers, employees and the state are involved in strategic decision-making processes and in regulating the quality of local vocational education and training provision, including both college-led programmes and workplace training. As a result, employer and employee representatives are involved in forming the skills of the next generation of the workforce. This contrasts with the English tradition of state-led training schemes, in which the government funds an array of governing quangos.

The design, content and assessment of vocational education and training in other northern European countries are negotiated between the representatives of employees and employers. Involving key stakeholders in setting the priorities ensures that training not only meets existing skills needs or the narrow needs of a single employer, but also responds to changing economic circumstances and meets the needs of employers, individuals and the state:

15 For this research we conducted interviews with key policymakers, industry experts and academics in the Netherlands, Ireland, Germany and Denmark. Interviews with vocational education and training experts in Australia and the UK also informed our findings.

- **Employer representatives** ensure vocational education and training is relevant to and has currency among employers, which in turn facilitates clearer entry routes and career paths for the workforce.
- **Employee representatives**, including unions and professional bodies, make sure that apprenticeships and other vocational qualifications provide the broad curriculum that supports career development and mobility across the labour market, which is particularly important for young people starting out in their careers. Strong collective bargaining systems have also traditionally ensured that workforce training is linked to wage returns.
- **State representatives** guarantee democratic accountability, particularly where public resources are involved, and may also extend agreements between the social partners into law. The state's wider interests lie in generating high employment and increasing the economy's productive capacity.

A strong social partnership is not simply a consultation process, and it is not achieved by placing a lone employer or employee on the board of a state-led skills body. It requires a genuine shift of power and responsibility to representative bodies that have control over budgets, including public funding, and the design of training programmes.

Subsidiarity: devolving decision-making and resources

England's centralised and state-led approach to training is ill-equipped to process the vast amount of information required for a flexible and responsive skills system. The range of national skills quangos contrasts with most other northern European countries, where the government's role is restricted to developing overall policy and legislation, and where strategic decisions about priorities and content, form, regulation and assessment procedures are devolved to the lowest possible level. Underpinned by the principle of subsidiarity, European best practice suggests how to organise decision-making between the sectoral and local levels.

In most countries with strong vocational education systems – notably the German-speaking countries, the Netherlands and Denmark – collaboration between employers, trade unions, training providers and the government at the sectoral level determines priorities and develops and updates broad qualification frameworks for apprenticeships and other vocational qualifications (CEDEFOP 2009). The content and form of vocational education and training are then developed by social partnership at the local level. Local employer representatives, unions and local councils collaborate to ensure that the content and form of training meet the diverse needs of local employers, learners and the wider community. The local social partnership bodies regulate the quality of local training provision and conduct assessments of learners, and may also advise colleges on how to adapt courses to local circumstances. This split between local and sectoral partnerships provides a nationally recognised framework while allowing colleges and employers to adapt content according to local economic and social needs.

Devolving control over the form and content of workforce development programmes would have implications for the aims and accessibility of training. In other northern European countries there is a shared understanding between the social partners that vocational education and training must offer high-quality routes into employment. In particular, strong legislative frameworks have created high-quality initial skills formation systems that prepare young people to enter the labour market. These countries recognise that young people require vocational qualifications with a substantial general education component, alongside support for their transition to working life and responsible

adulthood. There is less state intervention in adult skills or continuing vocational education and training, as experienced employees are less likely to require general education or qualification-based training. The level and requirements of these programmes are determined by the social partners, often on the basis of goals to increase business performance and professional competence.

The lesson from other European countries is that basic skills and pre-employment training programmes, while important, must be separate from workforce training programmes. In England, policymakers have persistently used vocational education and training to address basic skills shortfalls and as an alternative educational route for people who did not perform well at school. This approach should be avoided in the future: there is no rationale for diluting the quality of vocational education or workforce training programmes to make entry easy. A successful skills agenda also requires a successful general educational agenda, but one should not serve as a substitute for the other.

Building institutions in England

Tripartite training bodies are most effectively built by attempting to strengthen and involve existing employer and employee representative bodies. The chambers of commerce and industry play an important role in organising sector-based partnerships in Austria, Germany and Switzerland. They have the power to distribute licences to practice upon completion of apprenticeships and prosecute firms that operate without accreditation. In Belgium, Denmark, Finland, France and the Netherlands, representatives from unions and industry govern the sectoral committee structures responsible for developing curricula, regulating, certifying and delivering vocational training. An additional benefit of this approach is that employers and employees contribute to the administration and costs of the skills system through their representative bodies.

Building on existing representative bodies means that the skills system is rooted in operational knowledge of the sector's skills needs and that it can affect changes in skills *demand*, with a remit for providing training and business support. The strong and supportive intermediary labour market institutions built on social partnership in these countries offer a sharp contrast with England's shallow approach to business advisory services, which at present consists of a website and a phone line,¹⁶ and supply-oriented sector-based organisations (SSCs) that have no remit for business support, work organisation or competitive strategies.

In many other northern European countries, sectoral and local skills bodies are strengthened by the fact that membership of a trade body is often compulsory. But there are also strong incentives to engage, such as group training arrangements and access to finance. This role is supported by the tradition of state-backed finance to support business growth and innovation in these countries. A similar approach in the UK successfully increased workforce development and operational excellence in the automotive industry. When Nissan opened a local assembly plant in the late 1980s, the Japanese company raised concerns about the lack of trained workers and the poor standards of local suppliers. Keen to promote continuous improvement and productivity and quality across the supply chain, Nissan was the driving force behind the creation in 1996 of the Automotive Sector Strategic Alliance (ASSA), which the company strongly encouraged its suppliers to join. The ASSA provides access to collectively funded, high-quality training in technical and 'soft' skills and offers technical expertise and support to access UK and

¹⁶ See <http://www.businesslink.gov.uk/bdotg/action/home>

European Union funds. Research by Gospel and Foreman (2006) concluded that without ASSA, there would be lower levels of training among many member firms.

The weakness of trades unions and employer associations make strong national partnerships extremely difficult to establish in the English context. Reviving the large national tripartite bodies of the past, such as the National Economic Development Council, is unlikely to be any more successful the second time around, particularly given the cultural resistance to social partnership among many employer and employee representative bodies in England. However, the car industry shows there is the scope to build comparable networks to drive up standards and training. In a number of other industries and areas (particularly in the engineering and construction sectors), chambers of commerce, group training associations and employer associations already offer inter-firm training and could provide a basis for strengthening coordination around workforce development (Gospel and Foreman 2006). Other large firms, such as Network Rail and BT, could be encouraged to take a similar approach to Nissan in lifting standards in their supply chains. Indeed, some unions are more disposed towards a partnership approach. For example, unionlearn – the Trades Union Congress’ learning and skills organisation – has advocated a social partnership approach, including greater employee involvement in SSCs (Grindrod and Murray 2011).

Edwards (2007) argued that sectors that already have employer associations should be given resources and a remit to develop their members’ utilisation of skills, promote best practice and encourage high performance models such as team-work and increased employee involvement in decision-making practices. In sectors where employers are not organised, he advocates a local approach, where employers are brought together with other local stakeholders to consider the potential collective training needs and strategies for workforce development. These local associations would also promote more innovative and skills-led competitive strategies. Evidence suggests that employers would engage in such initiatives. For example, Edwards et al (2007) found that small employers in the food manufacturing industry, much of which is low skilled, were interested in trying new strategies to improve business performance and job quality, but felt that the resources and support to do so were lacking.

Building strength and cooperation among existing institutions in this way may also impose a measure of stability on the English skills system. The immature and constantly changing institutional framework in England, with new quangos, targets and policy frameworks imposed periodically by the central state, is confusing for businesses and does not help to engage employers in skills policy and funding. Institutional revolutions should be avoided in the future. Instead, we advocate incremental reforms to existing institutions, even if they are not perfect.

Conclusion

This chapter has argued that a combination of ‘hard’ and ‘soft’ measures accounts for the greater employer commitment to skills and training in other northern European countries. The state plays a stronger regulatory role to protect the interests of employees and consumers, but also provides far more generous and tailored support to help firms innovate and respond to economic change. This support is delivered through trusted intermediaries that know and represent the sector in which they operate.

The difficulty that England’s centralised and state-led institutions have had in engaging employers in skills policy and funding raises questions about who would be responsible for

driving and delivering a similar agenda at the strategic level, and in different sectors and localities. We have argued that a responsive skills system relies on giving key stakeholders ownership over decision-making processes, including how public money is spent. The key principle of institutional reform should be to ensure that the priorities and content of training are set by those closest to its needs: businesses and employees themselves. This objective will require reforms to build local and sectoral institutions that genuinely represent the interests of employers and employees, using existing representative bodies wherever possible, and that have real power over skills policy and funding.

3. RECOMMENDATIONS: A NEW VISION FOR SKILLS POLICY

The European context is very different, and systems cannot simply be imported wholesale from abroad. However, it is possible to draw out broad lessons for reform, with the goal to support a more responsible capitalism over a realistic timeframe. A vision of progress based on a well-skilled society envisages more opportunities for people to use and develop their skills at work. It would aim to embed learning in the workplace, to offer employees a sense of pride and collective purpose, and to drive up professional standards and economic resilience across all sectors and regions.

The post-war evolution of English skills policy shows that workforce training should neither be left entirely to the market nor controlled from the centre by the state. The ‘skills push’ thesis, which claimed that an increase in skill supply would push low-road firms into higher-value, higher-skill business models, has been shown to be largely ineffective. Over the last 15 years, skills policy has been loaded with enormous expectations about the improvements in economic efficiency and the social justice it could deliver, but hindered by the reluctance of politicians of all parties to engage in the wider economic reforms that could help maximise its impact. Workforce development programmes sought to deliver vocational qualifications on a large scale, but little attention was paid to the quality of the qualifications, whether they translated into better jobs and higher wages, or whether and how skills were used and managed in the labour market.

In this chapter, we advocate a radically different approach to adult skills policy that seeks to improve both the supply and demand for training by increasing employer commitment to skills and supporting low-training firms to embed workforce skills development in their production processes. First, we highlight the need for creative experimentation through a state-funded programme of institutional knowledge and capacity building.

We then set a long term vision for a ‘skills ecology’ that provides support and encouragement to firms to rethink their competitive strategies. We make the case for an evolutionary approach to reform: to shift decision-making power away from centralised, unrepresentative skills bodies towards democratic institutions, and to replace generic skills offers with collaborative approaches between the state, employers and employees, carried out on a sector-by-sector and location-by-location basis. We argue that employer commitment to skills policy and funding can be improved through a combination of incentives – including offers of tailored business support to provide training and solve organisational problems – and legal training requirements in sectors in which low professional standards pose a risk to consumers.

Finally, we briefly explore the implications for the wider skills system and general adult education.

3.1 First steps: experimentation and capacity-building

Our goal is to support and encourage more firms to adopt competitive strategies that support higher job quality, and at the same time improve the dynamism, innovativeness and resilience of English firms. If there is one lesson from the experiences of both England and other countries it is that neither one-size-fits-all business services nor ‘big bang’ institutional reforms are likely to have much effect. European institutional frameworks developed over long time periods, and were built on partnerships between existing intermediary labour market institutions that have struggled to succeed in many industries in England. Policymakers must avoid imposing large-scale national programmes and instead start with a phase of experimentation in different sectors and areas.

England's history of non-intervention in training and business development means that substantial investment in capacity building will be needed, including in business performance, work organisation and job design. This capacity building will have to take place among policymakers, educational institutions and businesses themselves. Initially, this will require a series of pilots designed to improve understanding of good practice and building the capacity of and collaboration between existing local and sectoral institutions. This could be funded through an expanded Growth and Innovation Fund of £200 million a year for an initial timeframe of five years.

The pilots should be supported by a well-resourced research programme on innovative business and work organisation, and would inform further reforms at the end of the five years. The research should include learning from the experiences of other countries, including Scotland and the northern European economies. In Scandinavia, 'learning networks' bring together research institutes and firms involved in workplace development programmes, with a remit to disseminate knowledge and best practice between firms. As a first step towards this, the Business Link website should be transformed into a repository for research on workplace performance in order to promote innovative practice among policymakers, researchers, educationalists and businesses involved in the pilots.

3.2 The long-term vision: a skills ecology

The long-term vision should be to create an ecology of business support and institutional collaboration, at both the sectoral and local levels, which is designed to raise employer demand for skills and improve the quality of college- and work-based training. As far as possible, the agenda should not be 'led' by the state, although the state has a vital role in ensuring accountability for public funding. In this section we set out the tenets of institutional reform, while leaving scope for flexibility and experimentation across different sectors, occupations and areas.

This approach would require much stronger sector bodies that are reformed to make sure that employers' and learners' interests are democratically represented and given strategic decision-making power. Reformed SSCs would be responsible for driving improvements in the standards, performance and resilience of their sectors, and for developing the relevant qualification frameworks and licences to practice. They would have an explicit remit to consider the competitive strategies and occupational regulation that are prevalent in their sectors, and the resulting implications for training and skills utilisation. Reforms should take place on a sector-by-sector basis and, wherever possible, SSCs should be built on partnerships between existing representative bodies.

Local social partnerships are a key feature of responsive and flexible vocational education and training systems in successful European systems, and are particularly important in sectors in which employers are not organised into associations. New local skills bodies would provide access to tailored business support and group training arrangements, delivered through existing employer networks in partnership with local HE and FE institutions and other stakeholders. The partnerships would be responsible for regulating the quality and assessment procedures for workforce training in a given sector or occupation.

This could be funded by bringing together existing sources of funding for business support, including the Growth and Innovation Fund and the Employer Ownership Programme. These funds should be expanded and supported by strong state-backed investment designed to address the UK's chronic problems with low business investment and to boost growth, innovation and employment in the economy. The government

should commit in the first instance £2 billion to this agenda, with reformed SSCs given responsibility for distributing the funding (allocated according to the size of their sector) to employers and training providers through local skills boards. This is less than the government currently spends on tax relief for training, which is largely untargeted and unlikely to support improvements in job quality or business performance (see below).

In the long term, these sector and local level bodies would replace, or significantly reduce the size of, large national skills bodies such as Ofqual and the Skills Funding Agency. Private sector awarding bodies would also become obsolete, as vocational qualification content would be determined by the social partners. This approach would reduce government administrative costs and ensure that budgets that are currently set by national state-led bodies are instead based on local and sectoral priorities.

Reforming SSCs

SSCs should be reformed from state-funded quangos into democratic bodies that represent the interests of employers, individuals and the state. Their remit should shift from articulating employer demand to setting strategic priorities for skills funding in particular sectors in order to drive improvements in the supply and demand for skills.

- From employer-led to social partnership: democratise SSCs
 - Employer representatives should make up one-third of SSC boards. Their role would be to make sure that qualifications respond to changing economic circumstances and have currency across the whole sector. Employer representatives should be drawn, wherever possible, from existing employer associations so that both large and small employers – and the sector's interests – are genuinely represented.
 - Employee representation should be increased from one individual to one-third of the board. These members should be drawn from the relevant unions, wherever possible. Where a sector has no union presence, the employer and state representatives would be required to facilitate the election of a representative body of employees across the sector, and employees would be invited to put themselves forward. The employee representatives' role would be to make certain that vocational qualifications and training represent the demands of different job roles and meet learners' need for high-quality training that supports mobility in the labour market.
 - The final one-third of the board would be comprised of state representatives, whose role would be to guarantee accountability in the board's use of public funds; to promote the state's interest in creating a more dynamic, sustainable economy; and to provide feedback to policymakers and other community and stakeholder representatives.
- From bark to bite: give SSCs power and responsibility
 - Reformed SSCs should have power to determine strategic funding priorities for skills in their sector, with control over a combined growth, innovation and training budget (as described above). This would provide an incentive for employer and employee representatives to engage in skills policy and funding.
 - Reformed SSCs should develop broad frameworks for qualifications that specify the knowledge and technical expertise that needs to be covered. They should not simply sign off on qualifications that have been developed by awarding bodies.

- SSCs should be responsible for promoting innovation in business strategy and work organisation in order to raise demand for skills among their members. They would have the power to determine and set licences to practice for their sector, which in public services could replace some national targets and reporting requirements.
- Occupations that might extend licensing requirements include those that involve legal, financial, technical or medical knowledge and where poor standards pose a risk to consumer wellbeing or demand, such as: childcare and long-term social care, fitness instructors and personal trainers, recruitment agencies and welfare-to-work providers, real estate and travel agents, car mechanics and dealers, and construction workers. In these and other sectors, SSCs should promote the use of apprenticeships to improve the professional competence of new entrants.
- This process should be evolutionary, with power only transferred to stronger, more representative SSCs, on a sector-by-sector basis. State representatives ensure accountability and value for money where public funding supports training and business support.

Establishing local skills boards

New local skills boards would provide business support services in their area and work with local colleges and firms to deliver training that is situated in broad sector frameworks but is responsive to local needs. The boards would establish collaborative approaches to address local business needs, while promoting innovation in business and work organisation. Local FE and HE providers would have a role on these boards and, with institutional support, would be expected to deliver more higher-level, off-the-job training and to support firms to improve the quality of their in-company training and opportunities for workforce development. Firms would have to be members in order to access business support, training credits and tax relief.

- Towards subsidiarity: build local power and flexibility
 - SSCs should be given a remit to set up, develop and fund local social partnership committees at the local enterprise partnership (LEP) level. These bodies would bring together local employers, industry and worker representatives, local educational institutions, training providers, researchers, and experts in work organisation and job design.
 - These boards should be as representative of local interests as possible, building on existing strengths, including formal and informal networks of local employers. As a result the composition may differ in different locations.
 - Local skills boards would be responsible for developing the content and form of vocational education and training to suit local circumstances, and for regulating the quality of training for young people and licensing practices, where required.
- Engaging local employers: offer a ‘something-for-something’ deal with firms
 - Local skills committees would be expected to raise the standards of and demand for skills among local firms, and to encourage local employers to become members. Membership would make publicly subsidised training credits and business support available, and would be mandatory in sectors in which consumer wellbeing is imperative. Public money comes with strings attached, however, and training subsidies should no longer be provided without a measure of conditionality.

- The committees would have the power to set up and fund group-training arrangements, working with local FE and HE providers or, where possible, building on existing collective associations and formal and informal employer networks. In some cases, training could take place along occupational lines to meet cross-sector skills needs such as HR, management or accountancy skills.
- This range of local providers, operating in and across different sectors, would offer firms the following services: support to develop training that meets their needs; training credits; help accessing financing, for example through the government's Growth and Innovation Fund, European funds, or a new national investment bank; and tailored business advice on competition strategy, work organisation and job design.
- Access to this support must be linked to strict conditions requiring firms to improve job quality and consumer standards, and to develop competitive strategies that rely on a well-skilled workforce. The features of specific deals struck with firms should be left to the discretion of local skills committees, but could include: commitment to implement wage returns for staff training, including the introduction of a 'living wage'; cost-sharing of training; adhering to specified quality standards; and a requirement to match public funding in their annual training budget. Local boards would be responsible for monitoring and enforcing these conditions, and would have the power to strip firms of public funding or remove business support if conditions were not met over a given time period.

The specifics of what this institutional ecology would look like, and the strategies required to influence the competitive strategies adopted by firms would vary according to the nature of the market in question and the existing industry structure, networks and stakeholders. For example the implications might be quite different in the construction sector, where a relatively strong institutional framework is already in place, compared to residential care homes, which are characterised by weak ownership structures and very low levels of unionisation.

The rationale for intervention may also differ. In the construction sector it may start by addressing the problems facing small firms, such as unreliable staff, low quality sub-contractors or the need to respond to changing economic circumstances. Residential care homes however have been beset by recent scandals about the abuse of elderly and disabled residents at the hands of care workers. This merits a level of compulsion, including stronger occupational licensing, with the qualifications developed by industry stakeholders. We explore what steps towards reforms in these sectors might look like in annex A and B, and draw implications for other similar sectors.

Reforming training tax relief

Tax relief against the cost of training is currently available for companies paying corporation tax and self-employed people paying income tax. The structure and administration of training tax relief makes it difficult for the government to channel this subsidy towards training that supports improvements in productivity, wages and job quality. There is scope to reform training tax relief so that it promotes productive training and further supports 'something for something' deals with employers.

Estimating the value of this subsidy is difficult because no official statistics exist. Research conducted for the Inquiry into the Future of Lifelong Learning estimated that tax relief for direct training costs totalled £3.7 billion in 2008/09¹⁷ (Schuller and Watson 2011).

¹⁷ Schuller and Watson (2011) estimate wage costs associated with employees undertaking training at £2 billion.

Reed (2011) estimated that tax relief for direct training costs amounted to £2.9 billion in 2009/10. These figures indicate that the state spends as much on tax relief for job-related training as it does on the main adult skills budget, which gives it more influence over the provision of work-related training than the adult skills budget alone would suggest.

The current system of tax relief for training has three central weaknesses that limit its ability to incentivise employer investment in productive training. First, tax relief favours particular kinds of organisations and individuals: companies that pay corporation tax and self-employed people who pay income tax. No similar incentive is available for not-for-profit organisations or companies that do not register a profit in a given year; or for employees or unemployed people who invest in their own training.

Table 3.1
The value of tax relief for training in the UK, 2009/10

	Value in 2009/10 (£bn)
Corporation tax relief	1.73
Income tax for self-employed people, of which is:	1.17
– Training undertaken by employees	0.31
– Training undertaken by business owners	0.86
– Total tax relief for direct training costs	2.90

Source: Reed 2011

Note: An additional £1.66 billion in corporation tax relief and £300 million in income tax relief was paid out against the wages of employees undertaking training.

Second, tax relief on training is untargeted, with no restrictions on the kind of training that can be subsidised. HM Revenue & Customs' (HMRC's) guidelines about what constitutes 'training' for the purposes of tax relief are very broad, and include induction and health and safety training, team-building and personal development courses, as well as training that is more closely linked to business improvement (Reed 2011).

Third, companies and individuals claiming tax relief for training do not have to specify the amount they spend on training, but simply add training costs to their general expenses (Reed 2011). Therefore it is very difficult for HMRC to produce statistics on training tax relief – including basic information about how much is spent and on which companies – which makes it impossible for the government to ascertain the effectiveness of tax relief as a subsidy or incentive. In contrast, lower-value government training programmes such as Train to Gain have significant built-in piloting and evaluation mechanisms.

Options for reforming training tax relief include restricting relief to accredited training, small firms or low-wage workers; restricting the rate of income tax relief; and introducing relief for national insurance contributions (NICs) (Reed 2011). Some of these measures, such as extending relief to NICs, would carry additional costs. Relief for accredited training for low-wage workers would not support the flexible, firm-focused support proposed in this report.

Instead, tax relief for training should be used as a lever to agree to a 'something for something' deal with firms. Firms would only be eligible for tax relief if they are members of local skills boards and where there is a whole workforce training plan in place, linked to plans for business performance improvements. Savings for the government would be generated where firms who currently take advantage of the tax relief available for training

are not prepared to abide by the new conditions. These savings should be redirected towards the reformed workforce development and business improvement service proposed in this report.

3.3 Implications for the wider skills system: securing a good basic education for every adult

The level and requirements of workforce development programmes should be determined on the basis of goals to improve business performance and professional competence, with qualifications developed by industry stakeholders. The quality of workforce development programmes has often been undermined by goals to support disadvantaged groups. Adults that lack a good basic education are better served through high-quality general education delivered outside the workplace.

The recommendations in this report are focused on workforce development and training needs linked to business improvement. Alongside a reformed workforce development programme, it is vital that adults without a good basic education continue to receive support for their learning in order to promote their social inclusion and employability. We therefore support the Coalition's commitments to funding first and full qualifications for 19 to 24 year olds, to levels 2 or 3; and to provide co-funding or income-contingent loans to people over the age of 24 completing level 2 and 3 qualifications. These measures are in addition to the reformed system of financial support available for university-level qualifications (level 4 and above).

Funding for good basic adult education should support high-quality general and vocational qualifications that are widely recognised in the labour market. Public funding should not be restricted to NVQs or other qualifications with narrow or job-related content, nor should such qualifications necessarily be delivered through the workplace (although there may be scope for employers to offer such training as a staff benefit in partnership with local colleges). The Coalition is right to specify that the funding offer for level 2 qualifications will include support for GCSEs in Maths and English.

Delivering good-quality basic education is expensive and tends to lack opportunities for co-funding from employers. Given the shrinking adult skills budget, this is a key challenge for efforts to ensure that every adult has the opportunity to gain a good basic level of education. The existing adult skills budget should be reserved to help adults with few formal qualifications improve their level of education as a route to social and economic participation. Additional sources of funding are required for the reformed workforce development and business improvement system proposed in this report. As outlined above, these monies should come from existing sources of funding for growth and innovation, expanded and supported by increased state investment.

Conclusion

This report has argued that a key feature of more responsible or 'popular' capitalism is to enable people to find pride, purpose and a sense of craft in their work – which could also help improve the economic performance, customer service and resilience of English companies. However, over the last 50 years, the English approach to workforce training and development has failed to take into account why a significant proportion of English employers do not train. The ineffectiveness of large-scale qualification programmes is of particular concern at a time when funding is at a premium. Instead, adult skills policy should focus on how firms' decisions and practices affect their employees – particularly those in low-skilled, low-paid jobs – and consumers and local communities.

Raising employer commitment to training and workforce development should be part of a radical attempt to improve job quality, firm performance and consumer standards through tailored business support. An increased commitment would improve skills supply and demand simultaneously, and could be applied to a wide range of sectors. It requires the state to regulate more, but control less. Incremental reforms should aim to replace state-funded, state-directed schemes with more targeted and collaborative approaches between employers, employees and the state. The long-term aim should be to develop a network of supportive local and sectoral institutions, comparable to those in Europe, with a remit to improve business performance, productivity and work organisation.

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ANNEX: CASE STUDIES FOR SECTOR REFORM

Strong existing institutions: the construction sector

The construction sector has a relatively strong institutional framework. The construction industry training board, which won the tender for the ConstructionSkills SSC, dates back to the 1960s. Membership is compulsory, and construction firms pay a levy that provides access to grants for quality training. As a result, ConstructionSkills already offers employer-facing services and promotes training in the sector. There is also a strong tradition of group training associations in the sector; they organise and deliver collective training to local construction firms, often in partnership with local FE colleges.

These institutions have helped address employers' skills gaps in the sector and in local areas, and provide a good example of the institutions these proposed reforms would aim to create in other sectors. There is a case for further action, however. The construction sector has long struggled with low productivity and poor standards, which are exacerbated by poor job quality and insecurity. Conditions worsened with the fragmentation of the industry in the 1980s (Evans 1990). Today large numbers of small firms and subcontractors are often unwilling or unable to train and prefer instead to recruit workers with the required skills and experience, often on irregular contracts (Brockmann et al 2010). The unreliability of services may suppress demand among consumers, who may be concerned about 'cowboy' builders. Many builders trained in England are also unlikely to meet the standards required in other European countries. As a result, they are at a disadvantage when competing with trained workers from other countries, both in the UK and abroad.

The ConstructionSkills board consists of 14 employers, two employee representatives, two FE and HE representatives, and a client member. Our proposed reforms stipulate that employer and employee representatives would each comprise one-third of the board. Union membership in the construction sector is about 15 per cent, and employee representatives would be nominated by the Union of Construction, Allied Trades and Technicians. The final third would include a state representative to ensure the accountability of public funds and to feed back learning into national policy, alongside stakeholders including educational institutions, consumers and clients.

The SSC would be given more power and responsibility over skills policy and funding, including control over the skills budget for construction qualifications and responsibility for developing and updating (rather than approving) occupational standards and qualification frameworks on an annual basis. They would be given resources to set up and fund local construction skills boards at the LEP level to bring together representatives from employees, employers and FE colleges, as well as experts on training, staff management and work organisation in the construction sector. These bodies would have the power to regulate the quality of training provision in colleges and the workplace, and where necessary, to set up more group training associations.

Firms' engagement with issues such as poor job quality and service standards could be improved by funnelling money for tailored business support through reformed sectoral and local skills bodies. Business support could tackle problems facing construction firms, including unreliable staff, low-quality sub-contractors, or the need to respond to changing economic circumstances – such as the increased demand for 'green' technology and

building work – but would be conditional on engaging with issues of job quality and work organisation. For example, a project in Australia tackled low performance in the fragmented thoroughbred racing industry by improving recruitment, induction training and career development practices, and implementing strategies for recognising workers' skills achievements. This programme resulted in lasting partnerships between employers and vocational colleges, increased training and development opportunities for staff, and improved profit margins for firms.¹⁸

Business support and training are best provided by existing organisations, such as employer associations that understand the sector and labour market conditions in which they operate, rather than state-led national bodies (Delbridge et al 2006). The construction sector provides an excellent example of how reforms might apply to other sectors that are already organised to some extent, such as the rail industry, manufacturing, media and the creative industries. An important case in which such an approach could have made a difference is the 2011 decision to award the Thameslink contract to the German-based company Siemens over British train-building company Bombardier due to Siemens' more innovative and up-to-date production strategies.¹⁹

Weak institutional landscape: residential care homes

The impact of licences to practice introduced by Labour in the social care sector was limited by the low level and poor quality of training requirements and by the failure to ensure that care providers managed, utilised and developed staff skills in the workplace. The increasingly lax approach to government enforcement in recent years exacerbated these weaknesses (Gospel and Lewis 2010). In 2010 the targets and the registration system for social care were abandoned on cost grounds, although some positions still require an NVQ to practice (Gospel et al 2011).

The social care sector has recently been hit by a series of scandals that have raised questions about the ability of the current regulator, the Care Quality Commission, to enforce standards in the sector.²⁰ Due to serious concerns about standards in social care, strong intervention is necessary in order to safeguard the interests of service users. These measures include 'hard' regulation to guarantee employer participation as well as softer approaches to help care homes raise their quality of care.

Skills for Care and Development is the SSC covering childcare, youth services, social services and long-term care. The board consists of seven representatives from private, voluntary and public sector employers; three from professional bodies; one union representative; two service users; and one representative each for carers, HE and FE organisations, and each of the nine regional committees. Our proposed reforms would shift the composition of the board to one-third employer and one-third worker representatives. The final third would be composed of state representatives and other stakeholders, including service users.

This SSC already administers the Workforce Development Fund and has developed a strategy for workforce development (Skills for Care 2011). This strategy highlights innovative service delivery and makes the case for training to employers, but its main

18 See New South Wales Department of Education and Training 2005. https://www.training.nsw.gov.au/forms_documents/industry_programs/workforce_development/skill_ecosystem/infsheet_racing_ind.pdf

19 See <http://www.guardian.co.uk/business/2011/jun/16/bombardier-at-risk-after-loss-of-thameslink-deal>

20 For example, several investigations by the BBC's Panorama series have uncovered systematic abuse in residential care for the disabled and the elderly. <http://news.bbc.co.uk/panorama/hi/default.stm>

focus is articulating employers' skills needs and signing off on qualifications developed by awarding bodies.

Under our proposed reforms, a reformed Skills for Care and Development would be required to develop new licences to practice for care and to develop the broad frameworks for care qualifications, which would be revised annually to make certain they meet current and future skills needs. The SSC would have a statutory duty to involve stakeholders (including employers, employees and service users) in this process. Funding would also be provided to develop innovative human resource strategies to improve demand for skills within the sector, both through member institutions and by setting up local skills boards at the LEP level in each region.

Skills for Care and Development would be responsible for identifying and engaging local stakeholders. The aim would be to bring together different care homes in a given region in order to improve training quality, work organisation and management practices. Membership of local boards would be compulsory for care home operators. In return they would gain resources and support from independent researchers and consultants to improve their human resource practices and competitive strategies. Common problems for care employers such as high turnover, low staff motivation and weak levels of professionalism, would be addressed.

Hosted by the LEP, the local skills board would be responsible for developing the content of the qualifications, regulating the quality of training carried out by both colleges and employers, and assessing learners and staff upon completion of a qualification. Other potential stakeholders could include representatives from a local FE college and/or group training organisation, the Care Quality Commission, the local council, practitioners from the local NHS hospital, and a local union representative or elected staff representative from each care home in the area. Each partner would be responsible for covering the costs of their own staff representatives, but the SSC would provide funding for the body to pursue these activities. Rather than roll out this strategy across the country, it would be sensible to start in areas with a history of good partnerships, such as the Greater Manchester LEP.

The crisis in social care warrants a level of compulsion for care homes to engage. First, all care homes should be required to be a member of a representative body, which would in turn be required to be a member of the SSC and have a reserved seat on the board. Second, licences to practice should be extended; employers and other stakeholders, including employee representatives, should negotiate the level of training requirements and content. Third, every care home should be required to engage with support and advice on improving work organisation and human resource practices, and provided with the resources to do so.

A similar approach could be adopted to raise job quality and service standards in other social care occupations, including child minders and elderly care assistants, and across a range of public services, for example in the NHS, Jobcentre Plus and probation services. Residential social landlords may want (or be encouraged) to adopt a similar approach to their public-facing services.