

NORTHERN SKILLS FOR NATIONAL PROSPERITY

THE RATIONALE FOR
LOCALISING THE SKILLS
SYSTEM IN ENGLAND

REPORT

IPPR North

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EXECUTIVE SUMMARY

Nurturing human capital is the most critical factor in our ability to ensure a prosperous future for the northern economy and for people living and working here. And yet the challenges which must be addressed in this area are formidable. There is a strong rationale for a greater localisation of skills strategies in a way that is able to both address immediate policy concerns and embed skills development within a wider framework for longer-term economic development.

Such a move would address pressing policy issues, providing support for short- to medium-term economic and business development and for linking disadvantaged people to labour market opportunities, by:

- providing a context for matching skills demand within the local economy and skills supply from local education and skills organisations
- enabling and incentivising the creation of opportunities and schemes by local employers – such as apprenticeships and work experience – to give learners and people entering or returning to the labour market on-the-job training and development
- linking disadvantaged people to entry-level employment opportunities, which can be further supported in a more holistic fashion by, for example, skills training, transport support and childcare.

At the same time, it would address the need to embed skills development within a wider framework which speaks to longer-term economic development priorities, by:

- anticipating longer-term local economic development trends, for example, through links to science and research-based innovation, the development of clusters and linked supply chains, and both attracting and building intermediate and higher skills within local economies
- providing advice, support and incentives to locally based employers with the aim of enhancing their commitment to building and utilising skills and to developing their workforces for sustainability and growth. Progression in work has a crucial role in tackling in-work poverty
- working closely with the formal education system to provide young people and their parents and guardians with clear information about future patterns in the local economy, so helping them to make choices about further and higher education which will meet their employment aspirations
- building links between universities and local employers and promoting an increase in mature study to improve the North's ability to retain graduates.

Our goal should be to move progressively to a high-skills equilibrium, with good jobs and high skills levels mutually reinforcing one another in a strengthening economy. A key part of this is encouraging businesses to move away from 'low-road' competitive strategies which rely on low cost and price rather than high quality and professional competence and which do not require a well-skilled workforce (Lanning and Lawton 2012).

The city-region emerges as the appropriate and correct level for this kind of coordination and orchestration for two reasons. First, because the geography of city-regions (and their rural counterparts) reflects real travel to work and travel to learn areas. For most people the UK is not one large labour market, but lots of smaller labour markets. Apart from young graduates, senior managers and certain specialisms, most people have local roots that mean they want to stay in their local labour market. School-leavers and those looking for a new job tend to search in their local area; employers tend to look locally

for new employees. City-regions should be responsible for developing active industrial strategies for their area; this requires a complementary skills strategy to be developed, focused on servicing the needs of key growth industries and addressing local skills challenges. Second, there is a pragmatic reason for focusing on city-regions: the city-region is a sensible scale at which to seek to engage with businesses in order to develop local networks of employers and employee trade union representatives, particularly in key growth industries. It is simply not possible to do this in a meaningful way from central government, other than with the largest employers.

Successful local skills strategies, including the three international case studies discussed in this paper, have the same core elements: they take a long-term view; they aim to provide a bridge between employers and learners; they involve a broad range of stakeholders in the decision-making and organisational processes; they are backed by good intelligence and high levels of collaboration; and they form just one component in a wide range of economic development initiatives, albeit a very important component. Crucially, they are focused on the distinctive needs of local economies and the aspirations of local people.

We make the following recommendations which, on the whole, go with the grain of current UK policy developments but call for more urgency, a more joined-up approach and – most crucially – a bolder vision.

Recommendation 1: Institutions

There is a need for intelligent local intermediaries who are given increased resources and empowered to orchestrate the employment and skills system at the city-regional level. They must be able to facilitate stakeholder partnerships between employers, employee representatives and training providers in order to drive the skills system. These partners each play a crucial role: employer representatives make sure training is relevant to firms; employee representatives make sure it supports better wages and job mobility; state representatives ensure public money is spent well. Ultimately these intermediaries should have full control over the organisation, funding and delivery of adult skills – true partnerships rather than ‘talking shops’ – and be organised by sector. Each sectoral partnership would help set strategic priorities, develop broad qualification frameworks and set occupational standards and licensing requirements for their respective sectors (Lanning and Lawton 2012).

In the short term, we recommend that local enterprise partnerships (LEPs) and their local authority partners should take greater responsibility for linking up skills, employment and growth in their local area. They should:

- **identify leading vocational centres of excellence** in their areas, focused on the key future growth sectors identified in their emerging local economic strategies
- **facilitate and host stakeholder partnerships** around key growth sectors, clusters and supply chains to bring together employers, training providers, welfare-to-work providers, employee representatives, unions and the state to promote skills engagement
- **create more local apprenticeship hubs** to enable employers to collaborate and develop the content of on- and off-the-job training, working through the stakeholder partnerships
- use their evidence base to seek to **align public resources from all levels** to deliver better coordinated results, covering issues such as the transport connections needed

to improve access for low-paid workers, and including co-location of and resource sharing between local and national services

- promote social and work innovation and **an increase in lifelong learning** throughout the labour market.
- build links between universities and local employers and promote an increase in mature study to **improve the North's ability to retain graduates**
- work to **improve careers advice** and get the right information to parents and pupils as what they want heavily influences training providers. Careers guidance is seen by many LEPs as the number one issue in desperate need of a coherent strategy. It is hard to address as responsibility is devolved to individual schools – with funding gone, each school is dealing with this in different ways which makes it very hard for LEPs to have an influence.

A key omission in the composition of LEP boards at present is employee representation – such representatives would be particularly helpful in the sphere of skills. Likewise, as LEPs' role in skills expands, so too must their democratic underpinning – greater clarity in their relationship with combined authorities and local authorities in the sphere of skills is essential. Equally important is for central government to provide more clarity around the envisaged role of LEPs in the wider skills system. This clarity and coordination is also required at a national strategic level. In particular, Department for Business, Innovation and Skills (BIS), Department for Work and Pensions (DWP) and Department for Education programmes need to be more joined-up with targets currently all pulling in different directions. This lack of coordination, and the difficulty of LEPs having to interact with too many central government departments, undermines efforts to develop a coherent approach at the LEP level. Both Whitehall and the LEPs must adapt if the vision articulated in this report of a better functioning skills system is to be realised.

Recommendation 2: Funding

LEPs and their local authority partners should be responsible for coordinating the budget for adult further education, skills and apprenticeships, which currently stands at £3.8 billion for 2012/13. This would give them much greater traction in the employment and skills system. Most of this funding would still be expected to go to colleges and training providers to deliver high-quality education and skills, as well as off-the-job training elements of apprenticeships, in response to local demand. However, LEPs themselves should have direct control over some of this budget (say, 5–10 per cent) to enable them to deliver their growth plans. So, for example, they might choose to provide seed funding for particular training courses to support the development of a key growth cluster, or to create a funding pot to which stakeholder partnerships can apply for match-funding for in-work training or to improve advice services. LEPs and their local authority partners should be provided with the resources to continue to experiment and develop different models, following examples like the Liverpool skills bank and the Sheffield city-region local skills funding model.

Recommendation 3: Information and intelligence

LEPs should play a key role in orchestrating the connections between skills and employment systems in their area. In particular, this requires central government to increase their capacity for gathering robust labour market intelligence. Increasing capacity will enable regions to conduct detailed research to identify the sectors and clusters that have potential to deliver economic growth, and the support that those sectors and clusters need – including skills. To do this, LEPs will need to strengthen their own core capacity. The government has provided LEPs with temporary additional core funding

for two years – as a first step this should be made permanent. LEPs and combined authorities need to be put on a more secure footing to take forward this work over the long term. This should be a core responsibility, and a move towards competitive bidding will not provide the certainty of funding that is required for sustainable and reliable market intelligence-gathering.

In the post-War period, many areas in the North had long-established industries in which the majority of local people found work for life, making the matching of skills to demand relatively simple. Nowadays the economy is changing so rapidly and many of the large traditional employers have disappeared, making it much harder to identify skills needs in advance. Local and sufficiently well-resourced labour market intelligence gathering is the only option for attempting to match skills supply and demand in a meaningful way.

More robust labour market intelligence can also be used to target more effectively those skills policies aimed at enabling disadvantaged individuals to engage in the labour market. For these policies to have maximum impact, they require programmes which can directly connect the disadvantaged to active roles in employment situations, training targeted at these individuals to address particular skills deficiencies, and training being embedded within broader employment support strategies.

Better local data collection and analysis may start to address the long running problem that poverty is experienced at the household level while skills policy targets individuals.

Recommendation 4: Apprenticeships

It must be a priority to improve the supply of high-quality apprenticeship places and to ensure that all young people are able to stay on in education and training of a kind that will equip them with the skills needed for employment. There should be a move away from intermediate apprenticeships in favour of advanced apprenticeships: the National Apprenticeship Service and its partners should aim to double the number of young people in advanced (level 3) apprenticeships by 2015, from 30,000 to 60,000.

This must be accompanied by a major expansion of pre-apprenticeship training programmes in northern further education colleges, as part of a programme to ensure all unqualified and low-skilled 16- to 19-year-olds achieve a minimum standard of education. These two actions, taken together, imply shifting funding away from intermediate apprenticeships in order to expand the provision of advanced apprenticeships for young people and pre-apprenticeship training.

The increase in advanced and higher apprenticeships needs to be rooted in employer demand for people with these qualifications. Crucial here is the development of local apprenticeship hubs or associations to bring together employers, training providers, sector networks and trade unions to plan and deliver apprenticeship places. Through collective purchasing of off-the-job training, this could also be a more cost-effective approach (Fuller and Unwin 2011).

Recommendation 5: Lifelong learning

Given changing demographics, it is essential to mobilise the whole of the labour force, including the number of people over the age of 50 facing unemployment as a result of the changing labour market. This is a particular challenge for the north of England given the impact of cuts in public sector employment and it has the potential to lead to significant levels of poverty in older age, especially among older women, who are disproportionately affected by these cuts, and changes in pension entitlements. To this end, within local

skills policy there should be a concerted strategy to support older workers to secure work and to establish new enterprises, supported by national and local strategies to enhance lifelong learning throughout the labour market.

This is particularly important for those sectors where low-skill, low-wage work is more common (which include retail, hospitality, storage and distribution, and food processing firms), and low-paid service occupations (which include care workers, nursing assistants and fitness instructors). Low levels of ongoing training are particularly prevalent in domestically-traded service industries. These have close to no global competition, benefit from consumer demand which is stable or expanding and often provide services for which it is difficult for consumers to access their quality before the event (Lanning and Lawton 2012).

Lifelong learning and work progression have a key role to play in increasing social mobility and reducing in-work poverty.

Recommendation 6: Integrate employment and skills

It is clear that skills policy has a critical role to play in both growing the northern economy and delivering on the ambition to provide more good-quality, well-paying jobs. But the North's ability to develop a world-class skills system is currently hampered by fragmentation. Policies covering skills, education, welfare-to-work, economic growth and active industrial strategy all need to be mutually reinforcing. Unfortunately, a lack of coordination by Whitehall departments and conflicting objectives mean that this does not happen at the local level.

Creating truly empowered city-regions requires central government to decentralise other tools, powers and funding to local bodies in order to tackle their distinctive labour market challenges. As such, in the medium term, we recommend the devolution of a significant proportion of welfare-to-work funding to local authorities and their partners in city-regions and their rural counterparts at scales which make sense.

1. BACKGROUND

This report provides an in-depth look at a skills policy that works for the North and what it needs to include. It supports the thinking behind the recommendations of the Northern Economic Futures Commission (the Commission), a private-sector-led, 18-month initiative which, in November 2012, published a 10-year strategy for the future development of the economy of the north of England. At a time when the national and international economy is struggling to emerge from economic crisis and recession, the Commission aimed to answer key questions about how the economy of the North of England can best be shaped to ensure prosperity for its people and places, and to enable the region to make its full contribution to a rebalanced UK economy in the name of national prosperity.

The Commission laid down a challenge: that the northern economy should increase private sector employment by 500,000 over the next decade by creating new, good-quality jobs – and skills policy was identified as one of the key interventions required. Organisation for Economic Co-operation and Development (OECD) research finds human capital and skills to be the most important factor lacking in and so holding back ‘intermediate regions’, like the north of England, making it central to the Commission’s work (OECD 2012). The Commission was keen to explore the place of skills in developing sustainable northern economies, where prosperity is shared, and people’s potential is fulfilled.

The north of England faces a very significant employment problem. Not only has the current recession had a disproportionate effect on unemployment in the North – not least among younger and older people – but it has exacerbated longer-term trends. In order to address this and make the most of the North’s vital human capital, there is an urgent need to exceed current employment projections and – as the Commission proposes – to create half a million good-quality private sector jobs. This presents a harsh challenge to every employer in the North, and policymakers need to be tightly focused on creating the conditions in which businesses can flourish.

In order to rise to that challenge, the North needs a strong focus on productivity and skills. We are failing to retain sufficient graduates; our apprenticeship schemes are not delivering for employers or apprentices; there is weak employer demand for skills, poor utilisation of workers’ skills, and a mismatch between the skills individuals have and those which are needed by employers.

This report identifies different rationales for skills action in recent research literature. It is focused on the development of the economy, and on the creation of opportunities for individuals. A more highly skilled workforce can better respond flexibly to changes in the local labour market and adapt more quickly to technological advances. Skills are also a key driver of productivity in the economy: a better-skilled workforce is more likely to engage in enterprise development and innovation, contributing to a more competitive economy.

Higher skills are important for individuals as well as for the economy overall. People with fewer skills are less likely to be successful in employment; they have fewer choices in the labour market; they are more likely to be paid less; they are less likely to be able to afford to travel substantial distances for work. As such, people with low skill levels, as measured by the qualifications they hold, are more likely to experience poverty and disadvantage. When it comes to tackling the skills gap, the social justice imperative is equal to the economic imperative.

Over the past decade, there has been a gradual change in emphasis from simply increasing skill levels and towards matching the supply of skills to demand in the economy. This change of emphasis comes alongside increasing political and economic focus on localism, partly as a response to the economic crisis and austerity but also as part of a longer-term policy trajectory away from top-down, centralised control. Although cautious by international standards, the proposals flowing from the Labour government's review of sub-national economic development and regeneration (HM Treasury 2007), which promoted city-region working and multi-area agreements, have been followed through by the Coalition government, with the creation of local enterprise partnerships (LEPs), which are expected to play a key role in the skills system, and the signing of the first wave of city deals, many of which have a major focus on skills (Cabinet Office 2012). In his report *No Stone Unturned*, Lord Michael Heseltine recommended the devolution to local areas of the entire budget for vocational training for learners aged 19 and over, to happen through a single funding pot together with other growth-related funding (Heseltine 2012).

For many commentators, this combination of economic and policy drivers provides the rationale for a shift towards a more localised approach to skills policy, one which is able to respond to the varying needs and opportunities of different local labour markets (Overman and Rice 2008). This would link the needs expressed by employers and the business community and the informed aspirations of students to the supply of courses and other development opportunities and manifest these connections within distinctive economic development strategies established at the local level. However, it remains early days for this kind of approach, and some are concerned to ensure that these localised approaches are framed strategically (see for example Lanning and Lawton 2012).

This report attempts to:

- provide a review of the evidence on the role of and vision for local skills systems in both building prosperous local and regional economies and supporting individuals to progress
- understand how national policy is currently framed in England and the extent to which this works with the grain of the localism agenda
- understand how LEPs as the designated local economic development hubs are currently working on skills
- examine three international case studies of decentralised systems recognised for their success in deploying and benefitting from skills interventions
- make recommendations to both national and local economic partners about the issues that need to be addressed as part of any move towards localised skills strategies.

2. WHY ARE SKILLS SO IMPORTANT?

The existing evidence highlights how, over time, different rationales have been put forward for placing a focus on skills. This section aims to offer a short review of key research evidence about the rationale for localisation of skills strategies. It focuses on different public policy objectives; strengthening the capacity for growth, addressing inequality and securing opportunities for those disadvantaged in the labour market.

Perhaps most crucial is to view the ‘social’ purpose of adult skills policy as distinct from the ‘economic’ purpose. While the economic purpose centres around the skills that employers need today and in the future, the social purpose is aimed at equipping people with a basic level of education which is needed to participate in society, including but not limited to paid employment. We need employers to be involved in delivering and funding training but have to accept that resources will not necessarily be distributed in a ‘progressive’ way. In other words, those employees who are already relatively well-qualified will often receive more training because that’s where their employer perceives their needs (and returns) as being greatest.

The social aspect of skills policy on the other hand is much less suited to delivery by employers. The last Labour government attempted to combine the social and economic roles of skills with disappointing outcomes (Lanning and Lawton 2012). The result was a surfeit of low-level, narrowly vocational qualifications delivered in the workplace which neither provided businesses with the skills they needed nor individuals with the good quality minimum education they needed.

2.1 Promoting economic growth in lagging regions

In their comprehensive evaluation of the drivers of sub-national growth, the OECD (2009) highlighted the contribution of both national and sub-national factors. Key contributors are national economic performance and regional productivity, both of which are crucial to regional competitiveness and creating the potential for organic growth within the local area. For the OECD, in those areas that are starting from a low base, as is the case in many parts of the north of England, another key factor in growth levels is the overall employment level.

The OECD made some key points about the contribution of skills in particular to sub-national economic performance:

- Productivity, defined as GDP per worker employed, derives from, and can be enhanced by, a number of drivers, crucial among which are skills, technology, capital investment and infrastructure. Of these drivers, skills is one of the more important factors and also one of the more reproducible and variable.
- Skills help to secure levels of employment participation, as higher skilled workers are more mobile and flexible and are consequently more likely to be able to find opportunities to work, even in difficult times. They are also more likely to engage in enterprise development and innovation, both in developing new enterprises and in improving the performance of their existing organisations.
- A lack of skills can be a key constraint on less successful regions, which struggle to benefit from external sources of growth because their labour markets are unable to attract investment. Improving and retaining skills provides a response to this weakness and can be a magnet for investors.

2.2 Tackling inequality and disadvantage

This proposition has been explored by a number of pieces of work supported by the Joseph Rowntree Foundation (Hirsch 2008 and Brewer et al 2012). It is a more complex story.

Testing the role of improving the education and skills of parents on low incomes, as part of a long-term strategy to reduce child poverty, one modelling exercise (Dickerson and Lindley 2008) sought to establish what difference would be made to child poverty levels if the distribution of occupations and skills that was envisaged by the Leitch review (Leitch 2006) was achieved by 2020. The preliminary estimate suggested a positive outcome, with a fall of between two and five percentage points in the child poverty rate. That is to say, up to 30 per cent of the task of eradicating child poverty could be achieved through the combined effects of higher earnings and increased employment chances.

However, this exercise also suggested that such a generalised strategy may not be sufficiently targeted to achieve the overall goal. Simply expanding attainment rates and outcomes was shown to benefit disproportionately people from better-off backgrounds. By itself, an improved skills profile among parents was not seen to be enough. The evidence highlighted the importance of employer practices - on whether an improved skills base encourages employers to refashion work so that there are more high-quality, well-paying jobs in the market. If they do not then introducing newly-skilled workers can lead to more people in the labour market either having to do work for which they are overqualified or leaving their jobs, with the financial reward for enhanced skills reduced. The research concluded that, in parallel with raising skills, a more effective use of existing skills was required to lead to improvements in the size and distribution of these rewards.

In a second report published last year, working with the Institute for Fiscal Studies and their 'Working Futures' model, the Joseph Rowntree Foundation examined the overall changes in the structure of employment in the economy caused by the recession and tested the impact of increased demand for skills and qualifications to 2020.

The main assumptions within the model include:

- a gradual recovery in overall employment levels and a modest reduction in unemployment, as the economy slowly recovers from recession
- continuing changes to the industrial structure of the economy and employment, towards a more knowledge-based and service-intensive economy
- continued polarisation of employment by occupation
- overall improvement in the qualifications profile of the workforce
- little change in the distribution of employment by full-time, part-time and self-employment status, with a small increase in the share of part-time jobs held by men
- modest changes in patterns by gender
- differing geographical fortunes, with fast employment growth expected for some regions and no significant changes expected for others.

Different projections of poverty and inequality were used to understand how the structure of employment and pay might evolve in terms of numbers and level of jobs, and implications for household income.

Key findings of this report confirmed those contained in the previous report, showing the impact of a number of specific approaches:

- A generalised increase in qualifications in the workforce results in greater income inequality across the labour market, with only small effects on poverty measures.
- Increasing the female share of total employment and reducing the gender pay gap both have very small impacts on poverty and inequality measures. This is largely because most adults (71 per cent) live in households comprising both male and female adults, so these changes reduce gender inequality but not inequality in household income.
- Increased polarisation by occupation results in higher inequality, but has little impact on poverty measures.

Skills policies aimed at enabling disadvantaged individuals to engage in the labour market and tackling in-work poverty cannot be left to employers and consequently there is a need to retain good public funding and provision for this role. Better local data collection and analysis may start to address the long running problem that poverty is experienced at the household level while skills policy targets individuals.

2.3 Improving individual opportunities

This then leads to the question of the role of skills interventions as a response to disadvantage and economic exclusion for individuals. There is a significant evidence base available which addresses this question.

Anne Green and David Owen (2006) have highlighted how participation in work is influenced by both individual and location-based factors. The ability for people to take up work depends on:

- demand in the labour market
- the extent to which their skills and other characteristics enable them to take up available jobs
- the capacity of the labour market and the wider infrastructure to bring demand and supply together.

Individuals with fewer skills face more constraints in accessing and being successful in employment than their more highly skilled counterparts. They are more limited in the number of jobs that they can do and they are more likely to face constraints, including cost-based barriers, on how far they are able to travel to work or move for employment, or the extent to which it is worthwhile for them to do so.

For this reason, the quantity and nature of labour market opportunities available locally is of particular importance for people with poor skills. Green and Owen conclude that if the goal is to promote opportunities for disadvantaged individuals then a key priority should be understanding and addressing differences in their capacity for engagement and mobility in the labour market – in occupational, sectoral and geographical terms.

Measures to tackle concentrations of worklessness need to take account of the profile of under- and non-employed people and of how labour markets operate in different areas. For the disadvantaged, the researchers emphasise:

- the need for holistic policies looking at individuals in a broader household, neighbourhood and local labour market context

- roles for both ‘supply-side’ interventions, focusing on the individual, and ‘demand-side’ initiatives to create opportunities
- the need for effective strategies to link people to available jobs in their local area in the first instance, reconnecting them to the labour market and then building on this connection
- the scope for transport and travel-related initiatives which ‘widen horizons’ to promote access to work
- the need for a long-term perspective and for policy flexibility in helping the most disadvantaged in the labour market, particularly those who are economically inactive and face multiple barriers to work.

Nigel Meager (2009) reviewed a wide range of evidence from different sources about the impact of skills interventions in supporting employment for these individuals, and his conclusions add further to these findings of Green and Owen. While recognising the plausibility of the notion that skills-based measures have an important role to play across the board, Meager cites evidence of a differential effect which is common across countries.

Meager cites consistent evidence across a number of different countries (Brunello 2007) showing that:

- at an aggregate level, there is a strong relationship between levels of initial education and continuing vocational training, and employment performance
- at an individual level, there is a strong relationship between training experience and the probability of being in work
- the evidence of an impact of training on unemployment is less clear.

The OECD suggests that this latter effect may reflect ‘crowding out’, whereby those who are trained displace those with lower skill levels. This provides a rationale for targeting skills interventions at specific groups facing specific barriers:

‘Appropriate policies can improve the labour market position of specific targeted groups. Such policies can be an important component of a general strategy geared at reducing non-employment traps.’ (OECD 2004: 185)

Meager clarifies, however, that it does not follow that training measures are the most effective intervention for disadvantaged, workless groups. This is particularly true in contexts such as the UK, where there is evidence of a low-skills equilibrium in parts of the labour market, and a significant proportion of low-skilled and unskilled jobs (Wilson and Hogarth 2003). In these contexts, Meager finds that interventions focused on job entry may give a greater pay-off, with skills investments being positioned as part of a wider set of tools (Speckesser and Bewley 2006). Indeed, there is evidence from various programme evaluations which suggests that large, broad-brush training initiatives focused on this group are not only disappointing – being both expensive and showing little or no effect on employment chances or subsequent earnings (Bjorklund 1991) – but also that they may have negative impacts, by distancing individuals from the labour market while they are involved in training (Robinson 1995, Meager 2009).

A review of US and European evaluations of programmes targeted at disadvantaged young people (Auspos et al 1999) found that it was long-term, intensive support that achieved gains for participants. This type of support offered intensive instruction over a

substantial period (typically six months), with self-paced learning, and a strong emphasis on early employment outcomes. Jochen Kluge (2006) confirmed this assessment:

‘Traditional training programs are found to have a modest likelihood of recording a positive impact on post-program employment rates. Relative to these programs, private sector incentive programs and Services and Sanctions show a significantly better performance ... [W]e find that evaluations of these types of programs are 40–50 per cent more likely to report a positive impact than traditional training programs ... [while] evaluations based on direct employment in the public sector are 30–40 per cent less likely to show a positive impact on post-program employment. Also the target group seems to matter, as programs aimed specifically at young workers fare significantly worse than programs targeted at adults, displaying a 40–60 percentage points lower probability of reporting a positive effect.’ (ibid: 27)

The general policy implications that follow from these findings suggest that the strongest possibilities for connecting disadvantaged individuals to the economy lie with programmes which can directly connect them to active roles in employment situations, and that linkages with private sector organisations are most likely to lead to longer-term outcomes. Incentive schemes which encourage employer participation can lead to good results, and there is a benefit to be gained from linking up supporting services, including targeted training activities to address particular skills deficiencies within broader employment support strategies. There is a different mix required for younger people seeking to enter the labour market for the first time, and those who have already had experience of work who may have specific skill deficiencies as the main barrier to labour market participation.

2.4 The employment–skills equilibrium

The OECD highlights ‘brain-drain’ as a crucial policy headache for regions and localities seeking to develop their economies through a focus on skills-driven productivity (Garcilazo 2010). This problem derives from the mobility of highly skilled workers: unless a local economy has the capacity to ‘lock in’ these mobile workers, either through attractive employment opportunities or other ‘stickiness’ factors (such as high quality of life and thriving localities), skills will leak out as they move to take up opportunities elsewhere. The north of England, which provides a good example, is a net exporter of graduates, with many of those who undertake higher education leaving the region to pursue better employment opportunities elsewhere. Looking at the three northern regions, the net loss of graduates is 25 per cent in the North East, 23 per cent in Yorkshire and the Humber, and 8 per cent in the North West.

Over time, this ‘sorting’ can lead to very different scenarios and outcomes for different regions, producing high-skills and low-skills equilibria as a result of imbalances in the supply of and demand for skilled workers (see figure 2.1). To address this problem in low-skill regions, the OECD’s proposed approach is to move progressively from a low- to high-skills equilibrium, by linking skills development to opportunities within the region and creating a wider framework for attracting and retaining skills.

Figure 2.1
Moving from a low-
to high-skills equilibrium

Demand/Supply	Low	High
High	Skills gaps and shortages	High skills equilibrium
Low	Low skills equilibrium	Skills surplus

Source: Froy et al, 2009

This model builds on a number of observations about economic and business growth:

- businesses and communities adopt new technologies and adapt to changing markets at different rates. Diane Coyle (2001) identifies a significant lag between the development of new technologies and the ability of societies and economies to fully take advantage of their potential to improve productivity.
- employers can achieve competitive advantage through a different approach to skills. Where there is a concentration on low-price, low-skills strategies, a low-skills cycle develops, as skilled individuals leave and others see a limited incentive to remain in education or training (Froy and Giguère 2010).
- however, as already noted, simply improving the supply of skills without simultaneous attempts to improve demand in these areas will not necessarily lead to economic growth. Instead, this would result in a skills surplus, which in turn would result in outward migration, as workers seek better quality employment opportunities elsewhere.

Where a low-skills equilibrium does seem to be taking root, local policymakers are often seen to take a ‘fire-fighting’ approach to back-fill labour shortages, often through recourse to immigration, rather than the longer-term strategic approach needed to improve the quality and ‘knowledge-intensity’ of local jobs and to increase the attractiveness of the labour market to residents and newcomers alike. Over time, the ‘fire-fighting’ model is unsustainable and the source of employment is eventually squeezed out. Moreover, this approach in effect subsidises business activity in a way which is inefficient in its use of public resources, provides poor job retention and increased labour market ‘churn’ and also contributes to low productivity.

A low-skills equilibrium leads to externalised costs on each of the state, employees and consumers (Lanning and Lawton 2012). Jobs requiring low skills levels are associated with low wages which need to be topped up by the state through tax credits and other means-tested benefits in order to provide a minimum standard of living for working people. A lack of training at work is associated with narrowly task-focused work and standardised, often repetitive, production processes. This can frequently result in poor job quality and job satisfaction, which can have a negative effect on employee wellbeing (Gallie 2009). In firms and sectors where training is limited, lack of employee competence can have detrimental effects on consumers. In the sectors of social care, childcare, construction and automobile repair, consumers often lack the information to make proper judgments about quality, yet quality is important to the consumer.

The only way to progress towards a high-skills equilibrium is through coordinated development, balancing both sides of the market – which implies a need to collaborate close to the market in order to boost both supply and demand.

The policy implications of this body of evidence include the need to recognise the importance of developing skills as a key objective for local and regional economic development strategies. Investment in skills is essential for boosting productivity and

competitiveness, but to be most effective a skills policy cannot operate in isolation from the wider strategy for economic development.

The balance of priorities will be locally specific, and will depend on the nature and starting point of the local economy. In areas with a high-skills equilibrium or skills gaps, the balance of priorities is likely to focus on developing demand-led systems to ensure that the supply of skills can respond to the current and future needs of employers. In areas with a low-skills equilibrium or skills surplus, more emphasis is needed on shaping employer demand so that the economy generates more productive and sustainable employment.

For the north of England, which has many areas in different positions across these four quadrants, investment in skills may help to transform local employment in the longer term, as people evolve and transform the work that they carry out. However, the current structure of the economy, combined with our open labour market in which skilled people can move for employment, means that this challenge is likely to require a systemic development process over a sustained period.

In part, moving towards a high-skills equilibrium will require strategic support for those high-skills sectors that can ‘pull along’ change in the labour market. But strategies should also be about boosting skills utilisation in sectors which traditionally have a high concentration of lower-skilled jobs, in order to enhance productivity and opportunity. For the north, these concentrations exist in sectors such as retail, care and tourism.

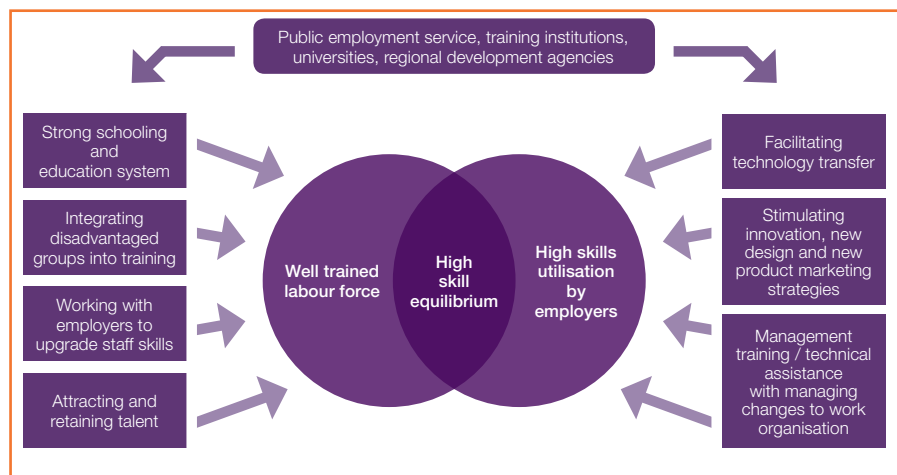
Working with employers to help shape demand for skills is often seen as outside the remit of policymakers. While they have traditionally been able to exert influence over the quality of employment in public services and through public procurement, this approach to development requires carefully calibrated and nuanced activity to ensure that a currently fragmented system can work effectively. As Lord Heseltine and Terry Leahy (2011) note in their recent review of Liverpool:

‘The system is already highly devolved, to students and providers. So the challenge is how to ensure that we give the city region and its employers a stake in the system, while not compromising the freedoms of learners, providers, and the achievement of national priorities such as apprenticeships and basic skills. We do not wish to see this highly devolved system changed. However, we do not believe that the market on its own will deliver the skills necessary for local people to take up the future job opportunities set out in this report. There must therefore be a balance and the Liverpool city region should put a proposition to government as to how we achieve a closer relationship between the local providers and the LEP.’

The OECD Local Employment and Economic Development programme proposes that, for this integration to be best achieved, the focus should be at the local level. They argue that local policymakers require a raft of tools to raise skilled employment and make the transition to a more productive and successful economy.

Figure 2.2 offers a model for defining the role of the local skills strategy and the linkages which are required to achieve a high-skills equilibrium within the wider local economy.

Figure 2.2
Linkages needed for a
high-skills equilibrium



Source: OECD (2008)

'Shaping employer demand' necessitates encouraging firms and sectors to move from a low-cost, low-price strategy to a high-value competitive strategy – based on high-quality, customised products or services offered at a premium price – which will need a well-skilled workforce capable of producing goods or services to the required specification (Lanning and Lawton 2012). A bolder move away from the still predominantly state-led, centralised approach to training 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 skills supply and demand, could help achieve this. 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 (Lanning and Lawton 2012). This would also help encourage firms and their workers to place more stock on lifelong learning and work progression which play a key role in increasing social mobility and reducing in-work poverty.

2.5 Summary

Higher-skilled workers are more mobile and flexible and are consequently more likely to be able to find opportunities to work, increasing employment levels. A lack of skills can also prevent less successful regions from benefiting from external sources of growth and investment. Economic success requires the generation of demand to retain and promote absorption of these skills.

Simply generally increasing skills levels alone does not lead to higher levels of equality in the economy. Rather, it can lead to further polarisation, particularly for people with very low skills, unless other factors are addressed. In particular, employers need to be encouraged to utilise improved skills in the form of more high-quality, well-paying jobs.

Skills policies aimed at enabling disadvantaged individuals to engage in the labour market and tackling in-work poverty cannot be left to employers and consequently there is a need to retain good public funding and provision for this role. Better local data collection and analysis may start to address the long running problem that poverty is experienced at the household level while skills policy targets individuals. Enabling disadvantaged individuals to engage in the labour market requires programmes which can directly connect them to active roles in employment situations. There is a role for skills training targeted at these

individuals to address particular skills deficiencies. This should be embedded within broader employment support strategies.

There is a need to move progressively from a low- to high-skills equilibrium by linking skills development to opportunities within the region and creating a wider framework for attracting and retaining skills. This requires a greater emphasis on shaping employer demand so that the economy generates more productive and sustainable employment. Attention to the wider range of factors which can attract and retain skilled workers, such as housing and local services, is also necessary.

To shape employer demand, firms and sectors must be encouraged to have high-quality, high-value competitive strategies. This requires a bold move away from state-led, centralised training towards sector-specific intermediaries who understand their sectors' needs. By driving skills supply and demand, these intermediaries could help firms and employees see the importance of lifelong learning – which would support not just progression at work, but also improve social mobility and reduce in-work poverty.

The city-region emerges as the appropriate and correct level for this more sophisticated skills policy for two reasons. First, because the geography of city-regions (and their rural counterparts) reflects real travel to work and travel to learn areas. City-regions should be responsible for developing active industrial strategies for their area; this requires a complementary skills strategy to be developed, focused on servicing the needs of key growth industries and addressing local skills challenges.

Second, there is a pragmatic reason for focusing on city-regions: the city-region is a sensible scale at which to seek to engage with businesses in order to develop local networks of employers and employee trade union representatives, particularly in key growth industries. It is simply not possible to do this in a meaningful way from central government other than with the largest employers.

Following is the first of three very different international case studies of successful skills strategies in regions facing similar challenges, opportunities and baselines to the north of England. Each of the case studies offers detail not only on the implementation of such strategies but also on the timescales and interactions required.

Case study 1: Brandenburg

The role of skills at the heart of economic development policy

Learning points for the North of England

- Skills policy must be fully integrated within an area's wider economic development strategy. That wider strategy should be built on the region's existing strengths and concentrating economic development activity on supporting the clustering of a few economic sectors and on the 'growth poles'. Linking of economic development goals across other policy areas, like demographic change, entrepreneurship, cohesion, European policy and cooperation, infrastructure planning and transport, is essential to ensure that these systems support economic development priorities and to influence investment from all sources. Wider economic development plans in areas like housing and spatial planning help to retain skilled workers in the area.
- Brandenburg, like many areas in the North of England, is dominated by high numbers of micro- and small-sized companies, with few headquarters of larger companies and no significant, 'anchor' international company. Therefore a successful skills strategy has to look at ways to assist small and medium-sized enterprises (SMEs), especially to address their difficulties in medium- to long-term human resources planning. Brandenburg produced special guidelines on supporting life-long learning and adaptability for SMEs and their employees.
- There needs to be a systematic process of local needs assessment, gap analysis and action planning, including commissioning of skills actions and identification of migration targets. Moreover, this information should be made available to schools, colleges, careers services and other agencies in order to help parents, trainees and school-leavers to understand areas of potential future employment.

The development of localised skills plans should be carried out by locally coordinated groups of partners drawing together all key stakeholders. Development of a broad political consensus ensures that crucial continuity and confidence. In Brandenburg, consensus was reached among the three main parties of the Brandenburg parliament, as well as among the other main regional and local actors.

CS1.1 Background¹

Since 2004, Brandenburg has adopted an economic strategy entitled 'Strengthening the Strength'. The focus is on systematically building up from existing spatial and sectoral strengths and it replaces a previous approach which spread investments and interventions around the region. The goal of the strategy is to build a globally competitive knowledge-based economy focusing on innovation, green technologies, modern energy and industry, science and research (Platzeck 2012).

The states of the former East Germany experienced significant structural change during the two decades following reunification in 1990. The merger of national

¹ This draws in particular on two papers: 'Securing the needed skills as part of the Brandenburg Strengthen the Strength strategy' (2012), prepared by Harmut Siemon as a contribution to the development of the OECD's work on skills, and from the Brandenburg case study in the report Promoting Growth in All Regions (OECD 2012).

currencies brought a countrywide revaluation shock, and the closing down of large state-owned enterprises leading to a direct and simultaneous loss of competitiveness and employment. Industrial production fell by 30 per cent in one month and almost 1 million jobs in industry as well as a further 0.3 million jobs in agriculture and mining disappeared. This had a direct impact on vocational training, as Germany runs a dual system provided by companies and schools in partnership. Nearly 80 per cent of people in Brandenburg changed jobs during the first year after unification.

Brandenburg subsequently experienced severe population decline, with birth rates shrinking and the loss to other regions of younger, skilled people who were faced with decline in the local job stock, stasis in opportunities and an oversupply of labour. In the years between 1995 and 2005, there were four times more younger people available to join the labour market (200,000) than there were older people retiring (50,000).

In terms of its economic geography, Brandenburg includes five smaller areas: Prignitz-Oberhavel, Uckermark-Barnim, Oderland-Spree, Lausitz-Spreewald and Havelland-Främling. It is home to about 2.5 million inhabitants, representing 3 per cent of the German population. It borders Poland to the east and four other German regions. A key economic relationship is with Berlin, with which it has significant interdependencies. Berlin is located at the heart of Brandenburg but belongs to a different administrative authority, and is home to 3.4 million inhabitants. In this sense Brandenburg itself is polycentric, but it should be understood as part of the hinterland of monocentric Berlin.

The region is also challenged by its industrial profile. Brandenburg's industrial base includes a number of regional headquarters in sectors such as automotive, energy and healthcare, but it does not include the national or international headquarters.

CS1.2 'Strengthening the Strength'

In November 2005, under the theme 'strengthening strengths', and following a request from the state parliament for an integrated approach to supporting innovation, SMEs development and sustainable economic development, the

Brandenburg state government identified 15 regional 'growth poles' encompassing 26 cities and municipalities and 16 areas of competence.²

The criteria for selecting these poles covered evidence of their dynamic development in previous years and of their growth potential for the future. Identification was managed through an open competition between local authorities, who were invited to propose and develop the growth poles, including making decisions on their location and development potential.

These poles have been designated as the focus of the Strengthening the Strength (STS) strategy. Through this, they have been given priority for intervention and development, with the goal of improving their competitiveness in order to secure growth and employment and ensure that funding is used efficiently. Those

² Under the 'growth pole' theory, economic development is not seen to be uniform over an entire region, but rather takes place around a specific poles or clusters.

responsible for developing the growth poles also have an explicit responsibility to promote development of their surrounding area.

Key features of the STS strategy include:

- Concentration of economic development activity on supporting the clustering of a few economic sectors and on the growth poles – with the intention of spreading positive development to surrounding areas.
- Shared ownership of the STS strategy with resources from all sources aligned to the strategy. Agreement to coordinate ‘bottom-up’ actions at the local and sub-regional level with top-down federal state and regional level activities into a coherent system.
- Agreement of a common innovation strategy with the federal state of Berlin, so taking advantage of the focus on Berlin in the strategies of both the German federal state and Europe as a whole. Agreement of the Innovative Capital Region Berlin-Brandenburg strategy.
- Development of a broad political consensus among the three main parties of the Brandenburg parliament, as well as among relevant regional and local actors in order to ensure continuity and confidence.
- Linking of economic development goals across other policy areas, like demographic change, entrepreneurship, cohesion, and European policy and cooperation.

Steering of the strategy has been led by the regional ministry level, and interactions with the 15 growth poles occur via an inter-ministerial working group, led by the state chancellery.

Each of the growth poles is based on proposed development concepts, including plans to expand infrastructure, develop commercial areas, secure skilled labour supply and promote technology transfer. In addition, wider programmes in the field of culture or tourism have also been developed to ensure that fields of development, state support and intervention have been integrated at the local level. The poles are incentivised through funding advantages in national development-focused programmes: they are given priority, and so these funds are now concentrated on these sites rather than in other areas of Brandenburg.

A framework for regular monitoring, reporting and evaluation as part of the long-range planning process has been instituted, and the strategy is supported by communication and discussion of the process in the Brandenburg parliament and the broader public.

CS1.3 Labour market challenges

In designing its response to economic challenges, Brandenburg has faced up to a number of particular labour market issues:

- Demographic challenges: Underlying ageing trends, as people live longer and have fewer children, are combined with net outward migration to other, more economically attractive areas. A key group is people aged 18–30 years, especially women, who left in large numbers after reunification.

- The business base: Brandenburg is dominated by high numbers of micro- and small-sized companies, with few headquarters of larger companies and no significant, 'anchor' international company. Consequently, there have been only weak development approaches to securing skilled labour supply in the private sector.
- Strong integration of the labour markets of Brandenburg and Berlin: up to 30 per cent of the Brandenburg workforce commutes to other regions, with 22 per cent commuting to Berlin specifically.
- High and differing levels of unemployment in the different sub-regional/local areas: the regional average was 10.2 per cent in December 2011, ranging from 7 per cent in Luckenwalde up to more than 14 per cent, as in Prignitz.
- Decline in funding: from both EU and national levels.

CS1.4 Developing a skilled workforce

Within the STS strategy, there is a particular focus on the establishment of a skilled labour supply.

Systematic preparations to address the issue have been ongoing since 2004/05. Research into the region's employment and skills position was undertaken in 2005, followed in 2007 by an analysis in terms of the identified growth poles and clusters.

This work has encompassed both diagnosis and prognosis, looking at skilled worker requirements as well as specific measures to secure supply. Although the development of skilled workers is recognised first and foremost as a task for individual companies, the strategy also aimed to support SMEs, especially to address their difficulties in medium- to long-term human resources planning.

The main change identified in this analysis was the shift from a skills surplus to a substantial (and foreseeable) lack of skilled labour in the region (and in other federal states in East Germany). Beginning in around 2010, the analysis identified that the number of skilled people due to retire – the baby boomer generation of the 1950s – was to be much higher than the number of labour market newcomers leaving schools, vocational training and universities.

Against this background, the skills strategy has aimed to integrate state and local actions to secure the development of human resource potential and to link it with economic development. Plans prepared for the growth poles were required to include analysis of and actions to secure skilled labour supply.

Key features of the overall STS skills strategy include:

- Ministerial-level action to direct funding procedures to support implementation of the strategy, in both the economic and labour ministries.
- Local-level action plans to combine research-based knowledge with intelligence from local partners, including companies and company networks; qualification institutions such as schools, vocational schools and universities; public and intermediary organisations such as local/regional development agencies, employment agencies, and chambers of commerce and craft; and subordinate

agencies associated with the economic and employment ministries in Brandenburg.

- Integrated skills supply and demand monitoring using data analysis as well as questionnaires and similar methods to engage with companies, schools and other partners.
- A systematic process of local needs assessment, gap analysis and action planning, including commissioning of skills actions and identification of migration targets.
- Making available this information to schools, colleges, careers services and other agencies in order to help parents, trainees and school-leavers to understand areas of potential future employment.
- Linkages at the regional and growth pole level to other policy areas, such as infrastructure planning and transport, to ensure that these systems support economic development priorities and to influence investment from all sources.

Over 100 specific measures to develop a skilled workforce cover eight broad fields of activity.

- improving vocational orientation and connectivity for lifelong learning
- increasing interest in higher education study
- promoting quantitative and qualitative expansion of initial training
- fostering competence development in companies and employee training
- needs-led training to increase opportunities for the unemployed
- improving cooperation and knowledge transfer between academic research and trade and industry
- promoting business start-ups
- developing structures to support the retention of skilled workers.

These measures are aimed directly at companies, employees, jobseekers, institutes of higher education, pupils, teachers and parents. The measures are currently undergoing further revision on the basis of the findings and the recommendations of a Berlin–Brandenburg ‘Skilled Worker Study’, which is part of the wider Capital Innovation strategy.

CS1.5 Results, outcomes and long-term effects

Through ongoing monitoring of the STS strategy, a number of changes have been identified.

- The direction of the guidelines for funding from EU and national sources is increasingly aligned towards the identified needs and oriented on sustainable and long-term employment and skills goals.
- There is a greater emphasis on supporting life-long learning and adaptability, including through special guidelines for supporting SMEs and their employees.
- Activities of companies within innovation clusters are coordinated to address shared needs for specific special skills, through skills and course development via local education institutions and attracting workers to the area.
- Wider economic development plans in areas like housing and spatial planning have been created, which help to retain these skilled workers in the area.

- Greater use and valuing of data monitoring, including through the involvement of local businesses and education institutions in these processes. Regular discussion between businesses and the ministries and the alignment of resources has assisted engagement.

It is too early to come to definitive conclusions about the outcomes of this strategy. However, the OECD has noted that levels of growth in Brandenburg have been higher compared both to other regions nationally and to similar regions internationally. Over the period 1995 to 2007, growth in GDP per capita stood at 2.1 per cent, outperforming the national pace of growth (1.6 per cent) and slightly below the rate in OECD large regions³ (2.3 per cent). The OECD observed that:

‘[H]uman capital has been a critical element contributing to the region’s recent development enjoying a higher proportion of high-skilled workers than nationally and a lower proportion of low skilled ones.’ (OECD 2012)

Brandenburg has been able to maintain a lower share of low-skilled workers⁴ in its labour force (5.3 per cent) than Germany nationally (11.1 per cent) and OECD large regions average (27.4 per cent); it also maintains a higher share of high-skilled workers (31.7 per cent) than the German average (28.1 per cent) and OECD large regions average (26 per cent), despite suffering significant population decline during the reunification transition period.

The region has continued to supply high-skilled workers through a number of universities and universities of applied sciences (such as the Technical University of Cottbus or Brandenburg University of Applied Sciences) and efforts to improve the matching of supply to the demands of the region’s employers are based on a ‘risk management’ approach that strengthens both the supply and demand side. On the supply side, the region is targeting the high-skilled workers through higher educational institutions and groups in the labour market facing particular risk (such as the low-skilled and older workers). On the demand side, it aims to work with companies to promote continuing vocational training and business start-ups and by linking technical institutions to the needs of businesses.

3 Territorial level 2 regions.

4 Measured by the proportion of the region’s labour force with only primary attainments.

3. SKILLS IN THE NORTH

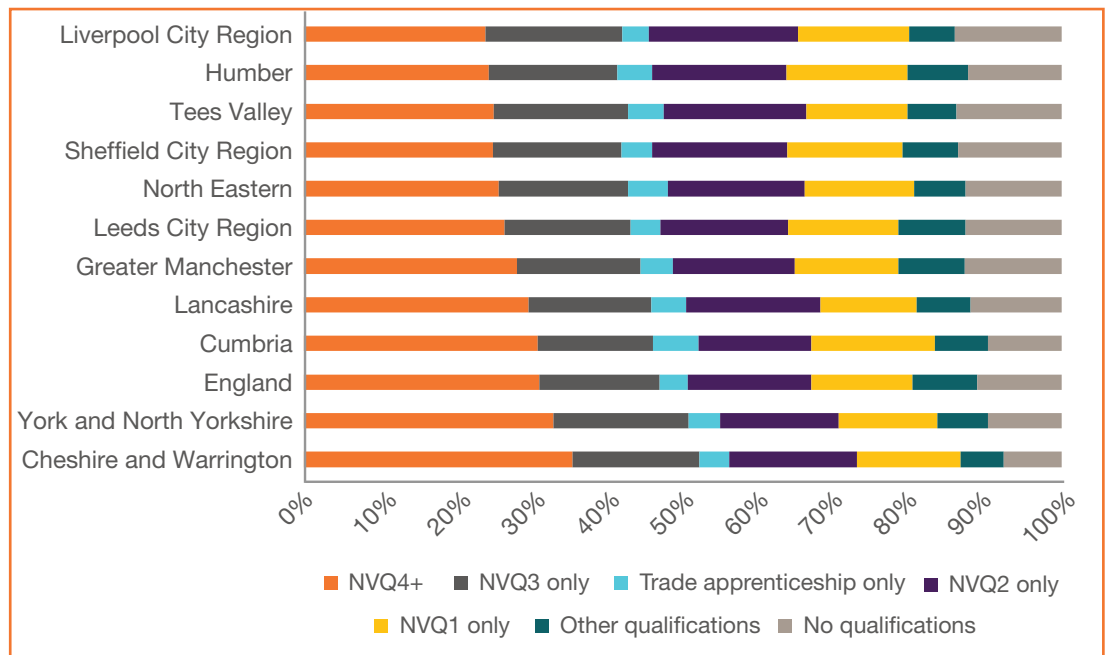
3.1 Low qualifications

The north of England faces some distinctive challenges regarding the skills profile of its workforce and demand for skills among local employers, and in matching the two together.

Looking at the skills profile across the North, a lower proportion of the population is qualified to degree level or above (NVQ level 4) compared to the rest of the UK. The northern city-regions generally have a higher proportion of people with their highest qualification at other levels – level 1, level 2, level 3 and skilled trade apprenticeships (see figure 3.1). This reflects the nature of the northern labour market, where employment in sectors like manufacturing and occupations that require intermediate and lower skills is more prevalent than in other parts of the country (Wilson and Homenidou 2012).

And while the number of people with no formal qualifications at all has been falling in recent years, the proportion of the population of the North with no formal qualifications remains higher than the English average, and this group is at a particular disadvantage in the labour market. It was the only group for which unemployment was increasing during the economic boom years early in the last decade, which demonstrates the premium that is placed on skills in the 21st century. As greater emphasis is placed on human capital and innovation in order to grow regions like the north of England, the labour force will need to be able to up-skill in response to demand.

Figure 3.1
Highest level of qualification held, 2011



Source: ONS Annual Population Survey⁵

⁵ <http://www.ons.gov.uk/ons/about-ons/who-we-are/services/unpublished-data/social-survey-data/aps/index.html>

3.2 Employer demand

Weak employer demand for skills is also an inhibitor. Figures from the national employer skills survey (NESS)⁶ show a worrying proportion of businesses (around one-third) that have no business plan, training plan or budget for training their staff, which suggests a low premium is being placed on the skills of the workforce. This casts a spotlight on the long tail of employers who are taking a low-cost, low-skilled approach to their business, unlike some of our European competitors in places like Germany and Scandinavia (Lanning and Lawton 2012). If the policy intention is for skills provision to respond to employer demand for skills then this is a key problem that needs to be addressed.

However, the North's problem is not simply a lack of demand for skills: the figures from the employer skills survey also provide an insight into the mismatch between the supply of and demand for skills in different parts of the North, as set out in the table below. There are areas where employers struggle to recruit the people they need, with employers in the North reporting that between a fifth and a quarter of vacancies cannot be filled due to a lack of applicants with the right skills. At the same time, 10–20 per cent of employees are working in jobs that they are overqualified for. The Heseltine review (2012) argues strongly that the vocational education system is failing here, with colleges not responding adequately to the needs of the labour market.

Another failing in the present system is that while businesses are generally good at identifying their immediate skills needs, their capacity to identify future skills needs is much weaker, especially among smaller firms (Stone 2010). City-regional active industrial strategies have an important role to play here by identifying future growth opportunities, which will help in turn to identify future skills needs in vital sectors, clusters and supply chains. It is essential then that skills provision in the local area is responsive to these needs, with training providers able to adapt courses to deliver what is required. At present, however, funding for further education is routed direct to further education colleges based on the previous year's enrolments, which makes it difficult for the system to respond to an active industrial policy with a focus on the future.

This whole process needs to be supported by good labour market information, with timely and robust intelligence to inform decisions about where there are skills shortages, which are the key growth sectors that should be the focus of an active industrial strategy, and what skills these sectors will require in the future. Coordinating this process effectively also requires an intermediary that is seen to be neutral, in order to secure trust, and arrangements for data-sharing between otherwise competing firms.

In addition, individuals need to be provided with better information about what qualifications or training courses will be the most effective for their future job prospects. Currently, their decisions tend to be influenced by what courses happen to be on offer in their local area.

6 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.

3.3 Mismatch between supply and demand

At the national level, unfilled vacancies due to skills shortfall are most prevalent in business services, manufacturing, construction, and community, social and personal services.

Table 3.1
Key metrics of skills supply and demand issues (all%)

	England	Cheshire and Warrington	Cumbria	Greater Manchester	Humber	Lancashire	Leeds city-region	Liverpool city-region	North Eastern	Sheffield city-region	Tees Valley	York and North Yorks.
Establishments with at least one vacancy	15	17	10	15	11	14	13	14	12	13	13	11
Skills shortage vacancies as proportion of all vacancies	25	23	27	21	21	24	21	16	20	23	26	20
Establishments with any staff underemployed	47	49	48	46	36	48	40	48	49	42	51	39
Proportion of staff employed who are underemployed	15	13	13	16	11	16	12	19	14	11	16	13
Establishments without business plan, training plan and training budget	27	26	36	27	31	30	27	23	29	29	27	29

Source: UKCES 2012

Looking at the North in more detail, each city-region faces different pressures in terms of the areas where employers are finding it hard to recruit employees with the right skills to fulfil their requirements (see table 3.1). It is important to note that while between a fifth and a quarter of vacancies are hard to fill due to skills shortages, the total number of vacancies in the economy is relatively small, with only 10–20 per cent of employers in the North (and UK-wide) having any vacancies. Overall, only 2–5 per cent of employers have vacancies marked by skills shortfall.

It is also important to note that it is possible that what an employer regards as a skills shortfall vacancy could actually reflect the fact that they're offering an inadequate wage. Nonetheless, analysing this data enables us to identify key occupations where skills shortages are more likely. The table below sets this out for the North's city-regions.

Professionals and associate professionals occur time and again in this list, suggesting that the smaller proportion of people qualified to degree level is a problem for northern businesses. It may also suggest that the large number of students who study in the North and then leave are either not sufficiently well informed about local job opportunities, have not studied the subjects that local employers are looking for, or simply wish to move to another part of the country for other reasons, such as family ties or the 'bright lights' of London, regardless of job opportunities.

Table 3.2
Top three occupations
facing skills shortage
vacancies (% of skills
shortage vacancies)

Cheshire and Warrington	1) Professionals (27%) 2) Elementary staff (23%) 3) Associate professionals (16%)
Cumbria	1) Administration and clerical (32%) 2) Skilled trades (16%) 3) Associate professionals (14%)
Greater Manchester	1) Associate professionals (23%) 2) Skilled trades (23%) 3) Professionals (14%)
Humber	1) Skilled trades (39%) 2) Professionals (37%) 3) Administration and clerical (9%)
Lancashire	1) Skilled trades (21%) 2) Caring, leisure and other services (18%) 3) Professionals, associate professionals and sales and customer services staff (all 17%)
Leeds	1) Associate professionals (23%) 2) Professionals (21%) 3) Skilled trades (18%)
Liverpool	1) Associate professionals (24%) 2) Caring, leisure and other services (20%) 3) Machine operatives (15%)
North Eastern	1) Skilled trades (25%) 2) Associate professionals (16%) 3) Professionals (14%)
Sheffield	1) Skilled trades (26%) 2) Associate professionals (21%) 3) Professionals (16%)
Tees Valley	1) Skilled trades (34%) 2) Associate professionals (33%) 3) Professionals (21%)
York and North Yorkshire	1) Professionals (31%) 2) Machine operatives (30%) 3) Skilled trades (12%)

Source: UKCES 2012

Furthermore, in a large proportion of city-regions, skilled trades emerges as a key area of shortage, suggesting that the focus on apprenticeships and better-quality vocational qualifications is essential for the North to fulfil its potential to increase the number of graduates in its own workforce.

3.4 Graduate retention

Between 2010 and 2020, the UK is expected to see a rising share of employment claimed by people qualified at degree level or higher, equating to 3,104,000 jobs over this period. On its present trajectory, this proportion as a share of the UK workforce will jump from 34.4 per cent to 42.3 per cent over the decade. However, on current trends, the proportion of the North's workforce meeting this mark is expected to remain static at 20 per cent (Wilson and Homenidou 2012).

The low level of graduates in the North's labour market is perhaps surprising given the relatively large number of universities located in the region as a whole. Figures from the Higher Education Statistics Authority show that Yorkshire and the Humber and the North East are particularly large net exporters of graduates. The North West performs relatively better, although it is still a net exporter of graduates.

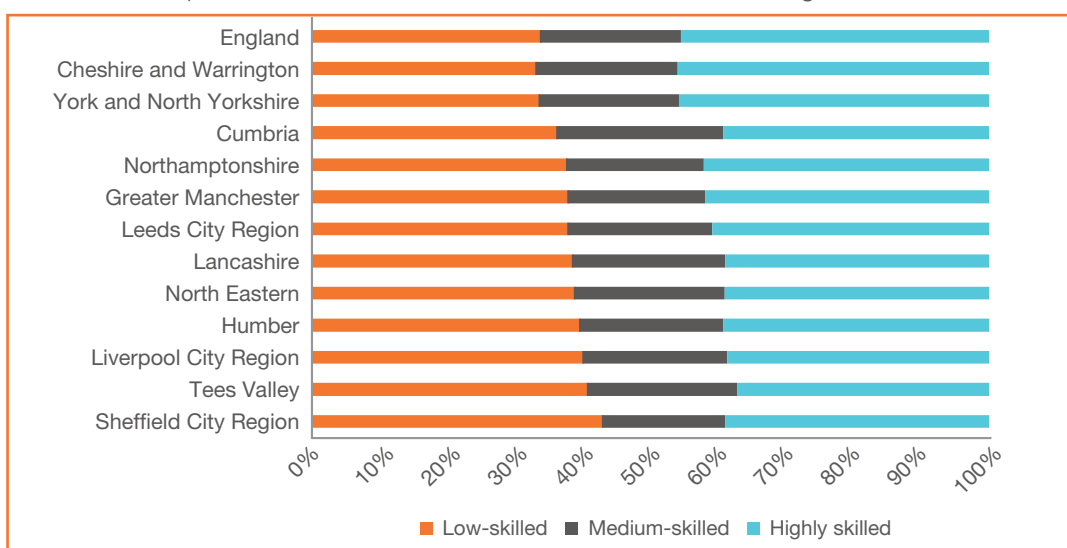
Table 3.3
Net gain of graduates,
2006/07 (% change)

London	60.9
East	40.2
Northern Ireland	13.0
West Midlands	-1.8
South East	-2.9
Scotland	-6.1
North West	-8.0
South West	-8.5
Wales	-19.7
Yorkshire and the Humber	-23.2
North East	-25.4
East Midlands	-29.2

Source: Higher Education Statistics Authority⁷

A key issue here is demand in the labour market. Looking at the types of jobs which are available in the North, a larger proportion of the workforce is employed in lower-skilled occupations, and fewer workers are employed in higher-skilled occupations (see figure 3.3). As availability of skilled graduate employment is the most important factor in retaining graduates locally, this is a critical issue for the North (ERS 2007). However, studies also reveal a number of other factors that influence graduate retention: for example, students who attend a local university and mature students (especially those with family ties) are more likely to remain in the area after graduating. Furthermore, courses that offer a curriculum that is relevant to local industry needs, sustain good links with local employers and offer work placements in the local area also tend to result in higher retention rates.

Figure 3.2
Percentage of the
population employed in
low, medium and highly
skilled occupations
(April 2010–March 2011)



Source: ONS Annual Population Survey⁸

⁷ See http://ww2.prospects.ac.uk/cms/ShowPage/Home_page/Main_menu_Research/Labour_market_information/Graduate_Market_Trends_2008/Graduate_regional_mobility_Winter_08_09_/pleeffbdm#Summary

⁸ Low-skilled: Elementary sales, services and operatives (SOC 6-9); Medium-skilled: Administrative and skilled associates and trades (SOC 4-5); Highly skilled: Managerial and professional, and associate professional and technical (SOC 1-3)

In order to improve the North's ability to retain graduates, the Northern Economic Futures Commission recommended a greater focus on building links between universities and local employers and the promotion of increased mature study. The issue also requires greater demand on the part of employers for a more highly skilled workforce.

3.5 Apprenticeships

Apprenticeships are a key route to employment for young people who do not pursue higher education. They should be the epitome of employer-led training, allowing young people to combine off-the-job general education and technical training with workplace experience. With the right general educational content in place, apprenticeships should also offer a progression route into higher education.

However, while the number of people undertaking apprenticeships has increased over recent years, the quality of apprenticeships has been eroded in favour of simply boosting quantity. In particular, the number of people starting intermediate (level 2) apprenticeships remains twice as high as for those starting advanced (level 3) apprenticeships (see table 3.4), despite the fact that lower-level apprenticeships are often of more questionable value in the labour market (Dolphin and Lanning 2011). Achieving real excellence in vocational education through apprenticeships requires a shift to higher-value qualifications, with a greater focus on advanced (level 3) and higher (level 4) apprenticeships.

Table 3.4
Apprenticeship programme starts by region, level and age-group, 2010/11

	Intermediate-level apprenticeship				Advanced-level apprenticeship			
	< 19	19–24	25+	All ages	< 19	19–24	25+	All ages
NE	8,450	5,260	9,140	22,850	2,610	3,240	5,740	11,590
NW	17,900	15,360	18,920	52,180	5,860	8,320	11,820	25,990
Y&H	12,580	10,650	14,200	37,420	4,160	6,030	7,860	18,050
E Mids	8,800	7,760	11,090	27,640	3,020	4,430	5,500	12,950
W Mids	11,720	10,580	13,550	35,850	3,930	6,150	8,100	18,180
E of Eng	8,930	7,880	9,140	25,950	3,230	4,720	5,720	13,660
London	7,720	8,460	11,190	27,370	2,890	4,450	6,590	13,930
SE	11,110	12,790	13,190	37,090	4,610	7,680	8,800	21,090
SW	9,310	10,810	11,970	32,080	3,540	6,190	7,200	16,930
Eng total	96,500	89,500	112,400	298,400	33,800	51,200	67,300	152,400
Other	820	890	1,000	2,710	360	440	700	1,500
Total	97,300	90,400	113,400	301,100	34,200	51,600	68,000	153,900

	Higher apprenticeship				All apprenticeships			
	< 19	19–24	25+	All ages	< 19	19–24	25+	All ages
NE	10	70	30	110	11,070	8,570	14,910	34,550
NW	40	280	160	480	23,800	23,960	30,890	78,660
Y&H	30	200	110	340	16,760	16,880	22,170	55,800
E Mids	30	170	70	270	11,840	12,360	16,660	40,860
W Mids	30	160	70	260	15,690	16,890	21,720	54,290
E of Eng	10	110	30	150	12,160	12,710	14,890	39,760
London	10	60	40	100	10,620	12,970	17,810	41,400
SE	10	120	30	160	15,720	20,600	22,020	58,340
SW	10	170	140	320	12,850	17,170	19,310	49,330
Eng total	200	1,300	700	2,200	130,500	142,100	180,400	453,000
Other	-	-	-	10	1,180	1,330	1,700	4,220
Total	200	1,300	700	2,200	131,700	143,400	182,100	457,200

Source:
National Apprenticeship
Service 2012

3.6 Life-long learning

Given the changing demographics of the North, in particular its ageing population, it is important that we consider lifelong learning as well. We are acutely aware of the rapid increase in the number of people over the age of 50 facing unemployment as a result of changes in the labour market. This is a particular challenge for the North of England, given the impact of cuts in public sector employment, and it has the potential to lead to significant levels of poverty in older age, especially among older women, who are disproportionately affected by these cuts and by changes in pension entitlements. To this end, within local skills policy there should be a concerted strategy to support older workers to secure work and to establish new enterprises themselves, and this should be supported by a national strategy to enhance the quality and quantity of lifelong learning throughout the labour market.

3.7 The low-skills equilibrium

The North faces some distinctive skills challenges on both the supply and demand side of the labour market equation. On the demand side, the proportion of employers lacking any sort of strategic approach to the skills of their workforce is higher than the national average in almost all parts of the North. On the supply side, a smaller proportion of the northern workforce has a degree and a larger proportion has no qualifications. In some areas this results in a vicious circle of low skills and low productivity: the low-skills equilibrium.

Furthermore, a large number of people who have been detached from the labour market and claiming an incapacity benefit or employment support allowance will, in time, begin to actively seek work once again, as the government's welfare reforms are implemented. Many of these people are likely to need support to update their skills and increase their confidence in order to find work.

Progress will require carefully coordinated activity: boosting demand without supply will result in employers being unable to fill vacancies; improving supply without demand will result in a brain drain. The international case studies each demonstrate how strategies to tackle the low-skills equilibrium have been implemented in other countries.

Case study 2: Zuid-Nederland

Brainport: the triple-helix approach

Learning points for the North of England

- Public–private partnership using a ‘triple-helix’ board structure – local mayors, leaders of key educational and research institutions and senior business representatives – can create ongoing stability and cooperation. Linked to this, and assisted by it, continuity in the policy goals over several cycles is important.
- Establishments at all educational levels (from secondary to university) should be encouraged to work together with industry.
- As well as growing the skills and capabilities of local people in technical and entrepreneurial activities, regions need to be actively supporting the inflow of technical expertise. This combination is seen as crucial in Zuid-Nederland to the vision of extending the innovation clusters, attracting incoming investors and addressing the labour market bottleneck, especially given the ageing profile of the local labour stock. The region has a number of initiatives in place to attract ‘knowledge workers’, including incentivising the relocation of top scientists, a student scholarship scheme in key disciplines, and a strong programme of enterprise education for schools and colleges. There is also a strategy to promote Brainport to students studying elsewhere with the offer of residential work experience.

The flexibility and adaptability of the workforce is crucial to both attracting of investors and providing security and opportunities for people living in the area. To help achieve this, the Zuid-Nederland region promotes an active approach to lifelong learning, opportunities for flexible working such as part-time and portfolio working, and has a regional approach to supporting job security.

CS2.1 Background⁹

The Brainport strategy emerged from trilateral discussions between the mayor of Eindhoven (Rein Welschen), the president of the Eindhoven University of Technology (Henk de Wild) and the president of the local chamber of commerce (Theoi Hurks), who came together to coordinate a response to significant economic changes unfolding in the south-eastern Netherlands.

Initial projects and initiatives were formalised as the Brainport programme in 2005 and these were consolidated into a joint vehicle, Brainport Development, in 2010. Brainport Development is a public–private partnership led by a ‘triple-helix’ board comprising the mayors of the four municipalities in the region (Eindhoven, Veldhoven, Helmond and Waalre), the presidents of the four key educational and research institutions (Eindhoven University of Technology, Fontys University of Applied Sciences, University of Tilburg and ROC Eindhoven), and senior business representatives from key companies in the region (Philips, VDL, BZW) and from the regional chamber of commerce.

Zuid-Nederland has experienced significant economic shocks in its recent history. The restructuring of Philips, which occurred in response to changes in the global electronics sector, was the largest reorganisation in Dutch history in terms of

9 This case study draws in particular on two sources: published information from <http://www.brainport.nl/en>, and from the Zuid-Nederland case study in the report *Promoting Growth in All Regions* (OECD 2012).

reduction in employee numbers and relocation of headquarters. In all, the workforce declined from 40,000 employees in the region in the 1960s to 25,000 in the early 1990s. Other significant employers in the region also faced financial difficulties which resulted in significant losses in employment and productive capacity during the 1990s.

The economic performance of the region has improved significantly as it has worked its way through this period of significant industrial change. It now has growth rates above the national average for the Netherlands.

Its provinces of Noord-Brabant and Limburg were home to 3.5 million inhabitants in 2008, or 21.6 per cent of the national population, and it benefits from a central position in Europe, bordering both Belgium and Germany. It includes a number of medium-sized cities, including Eindhoven and Tilburg as well as the prominent European Union centre of Maastricht, with its population spread between these urban centres.

CS2.2 The Zuid-Nederland response

In the Netherlands, provinces sit between national governments and local municipal authorities and have devolved responsibilities for spatial planning, infrastructure and transport, economy, environment, recreation, nature, wellbeing, culture and municipal finance.

The series of steps described above was an important driver for a new strategic direction for Zuid-Nederland. Moving away from reliance on its previous industrial profile, it prompted a new focus on developing and sustaining open innovation to create international competitiveness. This direction was based around significant cooperation between leading businesses, public sector institutions and universities and research organizations, with significant investment in new forms of cooperation. The newly restructured Philips invested in a new knowledge campus, stimulating development of new products and processes and sustaining a focus on commercialisation and improvement of their own operations. Other new higher educational institutions were established. The region aimed to position itself as one of the leading knowledge hubs within the European economy, maintaining a high proportion of advanced manufacturing in the economy and attracting and retaining skilled employment. Short-term deficits in economic growth and productivity were seen as the price of longer-term success in a competitive area.

CS2.3 Brainport 2020

Brainport 2020 was presented as a long-term strategy to establish Zuid-Netherlands as one of the top three European economic areas and one of the three pillars of the Dutch economy.

As the region is already responsible for 35 per cent of Dutch exports, 45 per cent of all private sector investment and 55 per cent of patents in 2012, the focus of the strategy is on strengthening and broadening its most successful clusters of activity, including high-tech systems and materials, chemicals, creative industries and food. In the context of global challenges, including energy generation and population ageing, it has highlighted opportunities to diversify into sectors such as mobility and smart care.

The region's strong existing base in these areas includes employment levels of 110,000 in high-tech industries – including in international firms such as ASML, Fujifilm, FEI, NXP, Océ, Philips and VDL – 22,000 employees in industrial design, and a third cluster in the chemistry and chemical industry, which employs 17,000 workers and is a global leader in basic chemistry, food ingredients, coatings and high-performance materials, with chemical exports exceeding €13 billion.

The Brainport implementation programme is built around four broad thematic areas:

- labour market
- research, development and design
- business activity
- environmental quality and infrastructure.

It also takes into account economic linkages into Flanders in Belgium and North Rhine Westphalia in Germany. It is built upon a strong multi-stakeholder partnership-based approach, which incorporates direct consultation with businesses and research institutions and with stakeholders at local, national and international level. A particular priority is the development of a strong policy, research and evidence base on which to build initiatives and benchmark progress.

The initiative has highlighted opportunities and bottlenecks on which it is focused on the Brainport website as follows:

Table CS2.1

Zuid-Nederland: strengths and bottlenecks

Strengths		Bottlenecks
High participation in lifelong learning	PEOPLE	Shortage of technical talent and inflexible labour market
Strong international knowledge position	TECHNOLOGY	Public R&D spending under critical threshold
Unique open innovation system		Exploiting opportunities in Europe
		Continuity of knowledge investments
Globally competitive supply chains	BUSINESS	Too little market focus in new developments
Excellent environments for knowledge economy	BASICS	Connectivity
		International reputation
		Too little 'pride' in the region
Triple helix cooperation in Eindhoven region	GOVERNANCE	Speed of decision-making
Wider cooperation		Cooperation within south-eastern Netherlands
		Obstructing legislation for cross-border cooperation

Source: Brainport 2020 ¹⁰

10 http://www.brainport2020.nl/en/about_brainport_2020/opportunities_and_bottlenecks

CS2.4 Skills and employment in the Brainport programme

Addressing the skills and labour market issues within Zuid-Nederland is identified as one of the four priority themes within the 'People' strand of the Brainport initiative. Within the work programme, there are four workstreams identified:

1. Excellent education at all levels

Educational excellence and high levels of qualification are recognised by Brainport as being key to the stability and growth of the clusters within the area, helping businesses within the area to remain innovative and competitive. The promotion of craftsmanship is highlighted as a priority.

The region has evolved a network of specialised education and research institutes which offer high-quality vocational and business-oriented education, involving businesses in programme design. Higher level multidisciplinary education is promoted at the three international universities within the region. There is a growing cooperation with Asian universities, as well as a new Social Innovation Institute being launched in Tilburg.

2. Increasing the inflow of technical talent

As well as growing the skills and capabilities of local people in technical and entrepreneurial activities, the region is actively supporting the inflow of technical expertise. This combination is seen as crucial to the vision of extending the innovation clusters, attracting incoming investors and addressing the labour market bottleneck, especially given the ageing profile of the local labour stock. The region has a number of initiatives in place to attract 'knowledge workers', including incentivising the relocation of top scientists, a student scholarship scheme in key disciplines, and a strong programme of enterprise education for schools and colleges. There is also a strategy to promote Brainport to students studying elsewhere with the offer of residential work experience. Maastricht University has a particular programme to attract overseas students through low fees.

3. A flexible labour market

This is seen as a local priority, given the global nature of many of the businesses operating in the region. The flexibility and adaptability of the workforce is seen as crucial to both attracting of investors and providing security and opportunities for people living in the area. The region promotes an active approach to lifelong learning, opportunities for flexible working such as part-time and portfolio working, and has a regional approach to supporting job security.

A recent 'e-portfolio' initiative to support a volatile labour market in the face of economic changes aims at measuring the skills and competencies of workers within firms. This means that a more diversified portfolio of job opportunities can be offered to knowledge workers, allowing them not only enhanced career development but also more job opportunities as sectors expand and contract.

4. Sustainable employability of the workforce

The fourth aspect of the strategy is investment in initiatives to promote employability among people living in the regions, with the dual aims of connecting people to labour market opportunities within the region and filling labour market deficits.

This work seeks to build on the high levels of interest within the local population in training and retraining throughout their lives.

CS2.5 Results, outcomes and long-term effects

The OECD's recent review of progress in Zuid-Nederland (OECD 2012) concluded that labour market outcomes are adequate and improving, and that human capital improvements have brought the region close to the national standard.

Labour market indicators in the region improved significantly over recent decades, overcoming double-digit unemployment figures during the early 1990s to surpass national standards of unemployment during the pre-crisis boom.

Figures for 2008 suggest that the region still has a slightly higher share of low-skilled workers in its labour force (23.9 per cent) than the average in Dutch regions (22.6 per cent) but a lower share than is typical in OECD regions. The proportion of highly skilled workers is also a bit lower (33.1 per cent) than the national average (33.8 per cent) but again surpasses OECD standards (26 per cent). The region has experienced important gains, improving the proportion of high-skilled workers by nine full percentage points and decreasing the proportion of low-skilled workers by seven full percentage points through a period when these figures remained unchanged nationally.

The OECD attributes the improvements in human capital to the range of higher educational facilities in the region, including three strong universities with different but complementary profiles in Tilburg, Eindhoven and Maastricht; the broad higher educational establishments of Fontys Hogescholen; the world-leading Design Academy in the field of industrial design, Hogeschool Zuyd, Avans Hogeschool, and the renowned Hogeschool HAS Den Bosch in the field of agro-food. A particular feature of the region is that at all educational levels (from secondary to university) educational establishments now work together with industry.

The wider impact is seen by the level of innovation activity in the region, which is seen as a key asset. The region's innovation output in science and technology captured by patent applications is more than double the average in Dutch and more than five times higher than the average value in comparable OECD regions.

The OECD attributes the region's strong innovation performance in part to the early adoption and ongoing stability of the 'triple-helix' forms of cooperation identified in the early 1990s. The strong relationships between business, education and research, and local politicians, and the continuity in policy goals over several cycles have resulted in a shift from externally to internally focused programmes. In particular, the transition away from externally funded stimulus programmes supported by EU structural funds is seen as a success. In the past, these were focused both on building business–education collaboration and on bringing low-skilled, unemployed workers back into the workforce. However, external sources were gradually phased out over time as the regional collaboration matured, eventually to be taken forward from 2005 by the Brainport programme.

4. SKILLS POLICY PAST AND PRESENT

There has been significant evolution in the interpretation of the evidence base around skills policy. Until recently, the focus was on the supply side of the skills equation: on boosting the skills of individuals with the goal of maximising their opportunities and income, and providing a more skilled overall workforce. But this has been seen to result in poor returns, and so has been superseded by a new focus: matching the supply of skills with the demand in the economy. In this model, the concern with skill levels remains, but there is an increasing interest in ensuring that the skills produced in the labour market match the demand of employers and the opportunities in the economy. While this is common currency in policy circles, however, we are yet to see this shift fully implemented in actual policymaking.

There is another strand to this agenda, which is a concern to seek to ‘futureproof’ the system, so that individuals can respond flexibly to changing labour market conditions and are prepared for the opportunities that will become available. This involves linking skills policy to an active industrial strategy and ensuring the content of training responds to employer needs, especially in high-priority growth sectors, clusters and supply chains.

4.1 Previous major reviews

Over the past decade there have been a number of significant reviews of national policy skills policy. The first of this century was the Porter review on competitiveness in 2003 (Porter and Ketels 2003). The report argued that the UK needed to recognise that it had completed the transition away from the large-scale business regulation of the pre-1980s and towards, in terms of its legal framework, a strong business environment.

Porter thus argued that the UK needed to move on to addressing matters of economic infrastructure and competitiveness. To deliver this, his review advocated more devolved structures to address regional differences in skills attainment, better strategic management in businesses, and more and better clusters, combined with supportive skills structures to match supply and demand.

A more focused appraisal of skills policy was to emerge three years later, with the Leitch review (2006). Its central proposition was that skills are a central priority to both securing competitiveness in a globalised economy and to addressing on social exclusion, which was a focus on the Labour government of the time. Leitch identified different type of skills – high-level, intermediate and basic – and argued that competitiveness would depend on growth at the higher end of the skills spectrum.

Using formal qualifications as the key measure of skills, the review identified a number of problems:

- A considerable proportion of British people held no qualifications, and that this was at a worse level than our main global competitors.
- Despite strong academic institutions and 25 per cent of the population having a university degree, there were insufficient technical and vocational skills, with respect to both quantity and level.
- There was an apparent cultural antipathy to skills, compounded by underinvestment by both the government and industry.
- The articulation of skills demand was traditionally poor, with insufficient attention from both government and business given to economically valuable skills in the system or employee and employer influence.

To address these challenges, Leitch proposed demand-led solutions by which responsibility for financing would be shared between the state, the employer and the individual. To facilitate this new tripartite relationship, the report advocated the establishment of stable institutions with clear goals, performance management, good networks, more employer responsibility and individual learner accounts or vouchers.

In addition the report advocated more connections between education and industry, the integration of employment and skills services, and a strengthening of standards in the apprenticeship system.

Not everyone welcomed the Leitch approach. Ewart Keep (2008) argued that the UK continued to measure its skills performance against international comparators that were misleading, because the structure of their economies and societies are too different. Against these benchmarks, then, it is unlikely that the UK would ever reach a point where its skills are competitive with those of Japan and other such economies, but only because the industrial structure is not comparable.

Keep therefore proposed to look beyond skills supply to explore wider issues of demand, utilisation and investment culture. In particular, he identified a need to view skills in a wider development context, taking into account matters of sector growth and employment, rather than seeing skills supply as a silver bullet. Left to their devices, business and employers have a patchy record on skills provision, and as a consequence the state needs to establish developmental objectives for skills policy and to work to engage employers and businesses in investment. Those businesses which do take skills provision seriously can end up with staff being poached by competitors. More fundamentally, too many businesses are engaged in 'low-road' competitive strategies that do not require a well-skilled workforce. As part of this new approach, the government needs to be clearer about the role and responsibilities of employers in articulating demand for and investment in skills, and not use subsidies to deflect responsibilities.

A further challenge to the Leitch agenda is that skills policy cannot be driven only by a concern about 'competitiveness' since most low-wage, low-skill jobs are in domestically-traded sectors. In up-skilling the workforce we are particularly concerned about those sectors that are not subject to international competition to force employers to raise their game and those workers which lack effective unions to push for improvements in wages and skills.

The last Labour government's review of sub-national economic development and regeneration (HM Treasury 2007) recognised that cities and towns were often the engines of economic growth and that many economic markets operate at the level of city-regions. It also developed proposals for multi-area agreements which allowed groups of local authorities to agree collective targets for economic development issues.

Wright and Sissons (2012) identified the underutilisation of existing skills in the workforce as a significant structural problem in the UK labour market. The problem is particularly apparent in low-wage sectors, and may be a bigger problem than either skills gaps or skills shortages. The report provided evidence to show that the problem is associated with 35–45 per cent of employees. In particular, the illustrative sectoral analyses found significant skills underutilisation in key retail and hospitality sectors.

Skills utilisation matters for a number of reasons. First, significant public investment has created a skills supply which is being underused – a focus on utilisation would create

an opportunity for productivity gains at a relatively low cost. Second, utilisation can help individual employers by developing better motivated, more confident and more productive employees, in turn reducing staff turnover. It matters to individuals in terms of both their own satisfaction and improving prospects for their progression. Third, skills utilisation plays a key role in progression in work which in turn is crucial to tackling in-work poverty.

Skills utilisation remains a contested concept, and the report made few substantive recommendations beyond awareness-raising and building sectoral and national coalitions.

A recent IPPR report by Kayte Lawton and Tess Lanning (2012) identified that employers do not invest enough in training and development, and that where investment does occur, it is to a much lower level than in key competitor countries. As a consequence, some sectors in the UK (particularly the domestically-traded sectors) and some areas in the UK, are evolving as a low-skill, low-pay economy that offers few opportunities for individuals to develop their skills. Lawton and Lanning argue that this is impacting on professional skills levels and organisational performance.

Governments have largely accepted this model of economic development, and have sought to intervene by providing skills to individuals to enable them to compete in the economy. This has led to a growth in skill levels in the economy, but matching against a demand for low skills from employers.

Lawton and Lanning propose a revised focus for skills policy, fitting it within a wider approach to the labour market and economic intervention. The aim would be to encourage employers to value, develop and utilise the skills of their staff, and the report proposes a tighter approach to regulation and stronger partnerships between employers and employees in order to promote a more strategic approach to economic development and skills.

4.2 Recent developments: LEPs, city deals and the Heseltine review

The role of LEPs

There has been little firm guidance from central government to LEPs and their partners on the design of their work on skills. Broadly, the government believes that skills delivery to date has been compromised by too much interference from external bodies, which has stifled innovation and inhibited the ability of training organisations to respond to the needs of their real customers: learners and businesses. The governance and coordination role has been left for individual LEPs to flesh out.

The Coalition's skills policy, as set out in its white paper, *Skills for Sustainable Growth*, is therefore focused on freeing colleges and training organisations from central and other external control (BIS 2010). It has removed all central targets and simplified funding systems, and it is in the process of reducing a wide range of bureaucratic and other restrictions which have acted as a barrier to flexible and responsive delivery in the past.

The *Local Growth* white paper confirms the government's position on the skills role of LEPs (HM Government 2010). The Department for Business, Innovation and Skills (BIS) will encourage LEPs to develop effective working relationships with the further and higher education sector and to engage directly with networks of colleges, training organisations and universities. LEPs will seek to agree how they can help to generate the level of demand that is needed to support local economic development – for example, by helping to boost the ambition of employers by spreading good practice – and to confirm the offer that colleges and learning providers will be making in response to that demand. Colleges

and training organisations are being encouraged to form self-organised networks so they can engage more easily with their LEP in order to agree skills priorities and how they can best be delivered.

A presentation from the Skills Funding Agency to the LEP Network (Evans 2012) articulates the role of LEPs – working on both the supply side and demand side – to better reflect labour market needs. They might do this by:

- Working with employers to understand labour market needs in the short, medium and long term
- Working with the skills sector to understand skills supply
- Providing information to the skills sector about specific local priorities and evaluating its responsiveness
- Joining up national and local policy and initiatives in a way that makes sense for the local area and adds value
- Disseminating information among both employers and individuals in order to improve the match between skills supply and labour market needs
- Facilitating and enabling direct relationships between employers and skills providers.

Partnerships and collaboration

On a wider scale, collaboration between LEPs has varied considerably and occurred only on an ad hoc basis. For instance, the skills leads in Manchester and Liverpool are in close contact, due to their geographical proximity and the similarity of the issues they face as well as the resources they have available to tackle them. In another example, the four LEPs across Yorkshire and the Humber have joined up for a major study looking at the future skills needs of employers in the region, funded by the Skills Funding Agency. Their research asks employers to tell them about their training needs and plans, including how well they believe the education and training system will be able to respond.

Some LEPs have reported that the LEP Network has been of limited benefit so far, due to varying degrees to which various LEPs have engaged with it, although this assessment may change as it becomes more established. In February 2012, the LEP Network organised a half-day workshop on making the skills system deliver for local enterprise, with the aim of supporting LEPs to:

- sharing best practice
- provide information on recent developments, including about sources of funding
- build new links with key figures from government and the world of skills provision.

The UK Commission for Employment and Skills (UKCES) has also held ‘Employer Ownership of Skills’ briefing events across England, engaging businesses locally with the £250-million pilot fund set aside to test out approaches that give employers the power to take control of training so that it best delivers the skills they need. UKCES is currently engaged with around half the northern LEPs with this initiative. It has also organised business-to-business commissioner events in partnership with the Liverpool city-region and Greater Manchester LEPs, through which local businesses committed to actions such as work experience, internships or apprenticeships.

Challenges facing LEPs

As part of our research, a review has been undertaken of the various LEP strategies in order to better understand their current approach. There is great variation in the evidence

available from one area to the next. In order to evaluate this more thoroughly, we carried out a number of in-depth interviews with LEPs, and in doing so we attempted to cover the full range of LEPs, including those at different stages of their development and with greatly varying resources at their disposal. We also interviewed representatives of Scotland's skills system.

A number of consistent themes emerged:

- There is currently a lack of resources and a reliance on volunteers; this is unsustainable, particularly in those LEPs yet to benefit from the city deals.
- The skills role of LEPs needs to be given greater legitimacy, including formal powers over providers, or at least consultation rights. In November 2012, the chancellor's autumn statement showed an intention to move in this direction.
- All LEP economic development work should have a skills element.
- It is difficult to interact with Whitehall, with LEPs having to deal with too many departments at present.
- Is impracticable to study more than a handful of key sectors in detail.
- Both national and sub-regional skills policy needs to consider whether a distinction should be drawn between year-to-year training provision, for which it would not be sensible for the LEP to hold the budget, and work focused on anticipating future needs (including investment decisions and centres of excellence) which LEPs are well placed to deliver.
- Data-sharing is a problem: Whitehall is reluctant to share data with LEPs; the Higher Education Statistics Authority has data on graduates but LEPs have to pay for it. Free and transparent access to data and the resources to analyse it is essential.
- At a national strategic level, there is a concern that programmes and targets in BIS, the DWP and the Department for Education are all pulling in different directions. DWP policy on worklessness and BIS policy on skills are not joined up, and people involved in one stream of programmes miss out on the other. This tension at the national level undermines efforts to develop a coherent approach at the LEP level.
- There is a concern that LEPs are being used as a catch-all for every government consultation that affects a local area, which is beyond their capacity and resources. LEPs should be allowed to focus on skills and economic development. Government expects LEPs to replicate the work of the regional development agencies (RDAs) that preceded them, which is unrealistic: LEP powers are too weak, particularly in terms of influencing training providers' strategies. LEPs have had to rely on providers' goodwill, but it is too early to tell if this will be enough. Equally, LEPs find it difficult to stay in contact with the whole business community and to get their message out to all sections of that community.
- There is evidence that businesses remain uncommitted to up-skilling or investing in skills, and that they continue to see the public sector as being responsible for addressing their specific skills needs. Businesses don't see the public role as providing skilled people in whom they then invest. The focus on apprenticeships is a welcome attempt to address this, but it is not the whole story. The solution requires institutions that are capable of convincing employers to see skills as an investment, to understand and value the skills of their people, and to focus on utilisation and development of skills in work.

- Careers guidance is in desperate need of a coherent strategy. This is not easy, as responsibility is devolved to individual schools; more recently, with funding cut, each school is dealing with careers guidance in its own way, which makes it very difficult for the sub-regional employment and skills boards to influence.
- There is a lack of clarity around the envisaged role of LEPs in the wider skills system. Specifically, the question is whether that role is a planning and management function focused on the short term or an analytical and coordination function focused on the future.

Significant skills elements have been included in the first wave of the Coalition's government's city deals. Among the most innovative are the local skills funding model in Sheffield and the 'skills bank' in Liverpool. Sheffield has obtained the ability to control part of the skills budget so that it can respond more effectively to local business needs. The model will match local contributions (public and private) with national funding. In Liverpool, the skills bank is an employer-owned mutual that will match public sector funding with private sector investment and allow businesses to buy the skills and apprenticeships they need. The creation of 'apprenticeship hubs' was also announced, enabling cities to boost apprenticeship numbers by supporting SMEs to take on more apprentices through apprenticeship training agencies, brokerage and incentive payments. Some cities negotiated sectoral industrial centres for excellence to take the lead on business curriculum content; others are to pilot tax incentive systems designed to encourage business investment in skills.

Recognising the lack of resources available to LEPs and taking on board some of the recommendations of the Heseltine review, the government in the latest autumn statement promised to provide £10 million per year for capacity-building within LEPs, with each LEP being able to apply for up to £250,000 in additional funding per year to support the development and delivery of its strategic plan (HM Treasury 2012). While it is to be welcomed, this increase in funding does not go far enough.

From April 2015, more of the funding that currently goes to local transport, housing, skills and getting people back to work will be placed into a single pot that LEPs can bid for (ibid). It was also announced that LEPs will have a role to play in shaping skills policy to fit the demographic, university and private sector profile of their local area. This is intended to make the education and skills system more effective and more responsive to the needs of employers. LEPs will play a role in setting skills strategies that are consistent with national objectives, and chartered status for further education colleges will be linked to their having taken account of the skills priorities their local LEP. In addition, LEPs will be able to determine how EU common strategic framework funds, including the European social fund, are used locally, and they will be able to bring bidders together to access Employer Ownership pilot funding. Skills policy is therefore moving in the right direction, albeit timidly. A key flaw with these future policy plans are LEPs having to bid for single-pot funding. This will make it hard for them to take the long-term view necessary and could lead to areas being left behind.

The North's ability to develop a world-class skills system is currently hampered by fragmentation. Policies covering skills, education, welfare-to-work, economic growth and active industrial strategy all need to be mutually reinforcing. Unfortunately, a lack of coordination by Whitehall departments and conflicting objectives mean this does not happen at the local level.

Creating truly empowered city-regions requires central government to decentralise other tools, powers and funding to local bodies in order to tackle their distinctive labour market challenges. In the medium term, a sensible development would be the devolution of a significant proportion of welfare-to-work funding to local authorities and their partners in city-regions and their rural counterparts at scales which make sense.

There needs to be much closer integration between employment and skills policy, which in turn need to be linked into identified city-regional growth priorities. Ultimately, city-regions should have responsibility for co-commissioning the government's work programme, alongside their local industrial strategy and skills responsibilities.

This is because centrally contracted welfare-to-work programmes retain a monolithic quality: irrespective of their emphasis on personalisation, they are largely insensitive to the long-term needs of local labour markets. Rather than charging Whitehall with commissioning, a more sensible and sensitive approach would be to align the commissioning of skills with welfare-to-work locally, where more sophisticated and flexible planning and contract design can occur.

Case study 3: Michigan

Skills alliances and the industry cluster approach

Learning points for the North of England

- Locally managed partnerships at a sector level can be highly effective at addressing strategic workforce issues affecting groups of firms operating in the same industry in a specific region, including:
 - using labour market information and employer engagement to develop a shared understanding of the critical skills challenges facing the industry
 - working with training providers and welfare-to-work providers to fill skills gaps
 - creating career ladders for low- and middle-income workers to assist incumbent workers to advance and unemployed workers to (re)enter and progress in the industry
 - stimulating employer demand for skills
 - connecting firms within a sector to community colleges and training providers, labour representatives, the workforce and other stakeholders in order to develop customised training solutions at the industry (not individual firm) level, covering short-term skills gaps as well as long-term plans to grow the industry. This can include commissioning specific curriculum developments such as specific modules (and credits) that can be inserted into other training courses, and endorsing courses with a 'kitemark' that meet its members' skills needs
 - resolving systemic and structural barriers to inter-firm cooperation by acting as a neutral intermediary, which was seen as critical.
- It is important to not underestimate the cost and time required to establish effective collaboration. The OECD found in respect of Michigan that employers thought that such clusters were useful but were not yet willing to pay for them.

CS3.1 Background¹¹

The US state of Michigan faces major employment challenges as traditional industries decline. It has a relatively large proportion of its workforce employed in goods-producing manufacturing, especially in the lower third of the state, where the majority of the population lives. Manufacturing accounts for nearly one-fifth of the state's output and around 15 per cent of its employment.

Much of this employment is concentrated in the automotive industries, which are dominated by the 'big three': Ford, General Motors and Chrysler-Daimler. Manufacturing jobs have traditionally been comparatively well paid, with the average manufacturing employee in Michigan paid \$22 per hour, compared to an average hourly wage in Michigan of \$16.

In the early 2000s, global competition hit Michigan hard. There were sharp job losses, especially in manufacturing, with the automotive 'big three' all losing market share: between 2000 and 2005, around one-quarter of the manufacturing workforce lost their jobs. At the same time, service industries in the state were also contracting, despite the fact that this sector was growing in the rest of the country. The state barely had a chance to recover from these economic challenges when the 2008 recession hit. The average unemployment rate in Michigan in 2010 was 12.7 per cent compared to the US average of 9.6 per cent.

As old industries decline and new ones emerge, retraining the existing workforce has become a major issue. In particular, Michigan has an ageing workforce which struggles to meet the skills requirements of modern businesses. And while the state has a good educational infrastructure, with world-class universities and good community colleges, there is low participation in post-high-school education.

CS3.2 The Michigan response

Governor Jennifer Granholm's administration (2003–11) sought to actively develop key industries, focusing on those where the state already had a competitive advantage and those that had the potential to be major employers in the future. Her administration identified green jobs (especially related to electric vehicles), defence, robotics and life sciences as priority growth areas, and offered tax packages to attract investors in these industries.

Alongside this cluster-led approach to economic development, skills development was identified as a priority. The result was the Michigan Regional Skills Alliances (MiRSAs) approach: locally managed partnerships formed to address strategic workforce issues affecting groups of firms operating in the same industry in a specific region.

MiRSAs and Skills Alliances

In 2004, industries were invited to form regional skills alliances, with the goal of aligning workforce skills to employer needs within a particular industry by:

11 This case study draws in particular on the following sources: published information from <http://www.sectorstrategies.org>, Michigan Skills Alliances Request for Proposals 2009–2010 (http://www.michigan.gov/documents/rsa/Michigan_Skills_Alliances_RFP_2009-2010_302940_7.pdf) and from Hollenbeck K and Eberts R (2006) An Evaluation of Michigan Regional Skills Alliances (MiRSAs): Final Report

- connecting firms within a sector to community colleges and training providers, labour representatives, the workforce and other stakeholders in order to develop customised training solutions at the industry (not individual firm) level, covering short-term skills gaps as well as long-term plans to grow the industry
- using labour market information and employer engagement to develop a shared understanding of the critical skills challenges facing the industry
- promoting productivity by increasing employer demand for skills
- creating career ladders for low- and middle-income workers to assist incumbent workers to advance and unemployed workers to (re)enter and progress in the industry
- resolving systemic and structural barriers to interfirm cooperation by acting as a neutral intermediary, which was seen as critical.

Initially, 13 MiRSAs were established in fields including nanotechnology, construction, healthcare, public utilities and manufacturing. Alliances were granted around \$100,000 in start-up funding from the state and were expected to be self-sustaining after two years. Some, such as the MiRSA for healthcare in southeast Michigan, were formed without any state funding at all.

The emphasis is on partnership and collaboration rather than new money. It is estimated that MiRSAs have managed to leverage an additional \$14.5 million in public and private money (though mostly public) to support their activities. In particular, they have succeeded in bending Workforce Investment Act funding (both formula-based funding and the governor's discretionary funding) to support their activities, as well as a major grant from the Mott Foundation, a charitable trust.

In Granholm's second term, MiRSAs were rebranded and refocused as 'Michigan Skills Alliances'. These successors shared the key characteristics of MiRSAs but were established in a different way: whereas the first phase was bottom-up, with an open invite extended to industry sectors to come forward with proposals, the second phase was more deliberately aligned to a state economic development strategy, which prioritised green growth. One of the skills alliances which emerged at this time was the Michigan Academy for Green Mobility Alliance (see below).

Michigan Industry Cluster Approach

Rick Snyder, the independent governor elected in 2011, has maintained a broadly similar approach. The brand 'Skills Alliances' may no longer be in use, but his Michigan Industry Cluster Approach (MICA) has many of the same features and builds on the existing alliances.

Five key clusters have been identified as the focus of Michigan's economic development strategy, based on their current concentration of employment, expectation of future job creation, their wage and salary impact, and human capital and skills. The five state-level priority clusters are:

- agriculture
- energy
- healthcare
- IT
- manufacturing.

Regionally significant clusters can also be added to this list.

Compared to the skills alliances approach, the key development is that clusters incorporate the whole of the supply chain. Nonetheless, the governor's strategy explicitly calls for existing alliances to adapt to broaden their membership rather than reinventing the wheel.

MICA is seen as the workforce strategy for Michigan, rather than an add-on to mainstream activity. As such, all workforce development funding in the state is expected to be bent to support these clusters. The state is also creating a cluster training fund for innovative activity that cannot be supported by federal funding sources, although employers will have to match-fund to be eligible.

CS3.3 How does it work in practice? The Michigan Academy for Green Mobility Alliance

The automotive industry has the potential to become a key source of green jobs, as hybrid cars become more common and battery and energy storage technologies for electric cars develop, in turn requiring component design, manufacturing and maintenance. Driven by the needs of employers, and overseen by a board representing employers, education and training providers, the welfare-to-work system and state government, the Michigan Academy for Green Mobility Alliance (MAGMA) seeks to:

- ensure the automotive industry can access the trained workers it needs to grow and prosper
- prepare individuals for emerging technologies.

Based on discussions with employers, the board identifies key areas for skills development and commissions specific curriculum developments to fill skills gaps and provide current and future employees with the skills required. These commissions include specific modules (and credits) that can be inserted into other training courses, such as traditional associate-level technician degrees. This required the board to broker an agreement between education providers to acknowledge credits gained in other institutions.

MAGMA also acts as a kitemark, endorsing courses that meet its members' skills needs.

With the help of welfare-to-work providers, these opportunities are promoted to those out of work as well as the incumbent workforce. A report for the Government Accountability Office found that 312 people – including 30 unemployed people – completed training between autumn 2009 and January 2011.

CS3.4 Results, outcomes and long-term effects

It is too early to offer a full impact assessment of this cluster-focused, employer-led approach to skills policy, not least because the strategy aims to address structural barriers that prevent training from occurring, which necessarily takes time and is hard to measure.

A process evaluation, published two years after MiRSAs were established, found:

- strong success in developing collaborative networks among businesses, educational institutions and workforce development (welfare-to-work) agencies
- successful engagement with employer-led strategic planning, providing a blueprint for prioritised activities aimed at a sector's most pressing workforce issues
- in many cases, underestimation of the cost and time required to establish effective collaboration, which resulted in limited training being undertaken during the course of the evaluation.

Furthermore, the sustainability of such employer-led clusters has been called into question. The OECD found that employers thought that such clusters were useful but were not yet willing to pay for them. A National Governors' Association evaluation (into state sector strategies in general) identified a number of critical success factors for successful employer-led cluster approaches:

- produce and share good-quality labour market data
- ensure there is cross-agency data-sharing
- direct public resources to support cluster strategies and incentivise private resources to follow, reallocating and bending the funding of other agencies
- make grants available to fund start-up costs
- appoint dedicated intermediary staff who are seen as neutral.

While the new Michigan governor has, in part, reversed the skills alliance policy, this industry cluster approach to economic development has increasingly been adopted by local and regional government agencies across the US (Hamilton 2012). This is, in part, due to the United States Department of Labor increasingly focusing on funding regional economic strategies connected to industry-based sector approaches. It has made use of incentives to move local practice towards these strategies. An additional element common in many of these cluster approaches is the use of pathway models which provide a clear progression of courses for learners towards achieving a designated credential in a particular occupation within a cluster.

5. CONCLUSION: SKILLS POLICY IN THE FUTURE

5.1 The role of skills policy

This review of evidence, recent policy changes and international case studies suggests a number of key points of commonality which, taken together, provide a strong rationale for the localisation of skills strategies.

On one hand, this would address immediate policy concerns, such as support for short- to medium-term economic and business development and for linking disadvantaged people to labour market opportunities, by:

- providing a context for matching skills demand within the local economy and skills supply from local education and skills organisations
- enabling and incentivising the creation of opportunities and schemes by local employers – such as apprenticeships and work experience – to give learners and people entering or returning to the labour market on-the-job training and development
- linking disadvantaged people to entry-level employment opportunities, which can be further supported in a more holistic fashion by, for example, skills training, transport support and childcare.

On the other hand, there are other strategic points concerning the need to embed skills development within a wider framework which speak to longer-term economic development priorities, by:

- anticipating longer-term local economic development trends; for example, through links to science and research-based innovation, the development of clusters and linked supply chains, and both attracting and building intermediate and higher skills within local economies
- providing advice, support and incentives to locally based employers with the aim of enhancing their commitment to building and utilising skills and to developing their workforces for sustainability and growth. Progression in work has a crucial role in tackling in-work poverty
- working closely with the formal education system to provide young people and their parents and guardians with clear information about future patterns in the local economy, so helping them to make choices about further and higher education which will meet their employment aspirations
- building links between universities and local employers and promoting an increase in mature study to improve the North's ability to retain graduates.

The evidence suggests that locally based capacity is required. It must have the key competencies to support these approaches, and it needs to be well informed about patterns and changes in local economic opportunities and current and future demand for skills. It must be closely linked to partners on both the supply and demand side – and able to influence the shape of supply – as well as within the economic infrastructure that supports the local labour market. It must be sensitive and connected to the future of local learners, and able to understand and influence the choices of young people and of people returning to or changing their roles in the labour market. All of this implies that this local capacity should have both the hard and soft resources to enable it to promote, commission and incentivise changes.

It is not, therefore, enough for a skills strategy to operate within the skills community in isolation. It needs to be in close alignment with the wider direction of development within the local area – able, for example, to engage actively with employers and businesses,

universities and further education institutions, schools and careers services, and with services aimed at helping the disadvantaged and unemployed to access opportunities.

5.2 Lessons from the international case studies

Successful local skills strategies, including the three international case studies discussed in this paper, include the same core elements. They take a long-term view; they aim to provide a bridge between employers and learners; they involve a broad range of stakeholders in the decision-making and organisational processes; they are backed by good intelligence and high levels of collaboration; and they form just one component in a wide range of economic development initiatives, albeit a very important component. Crucially, they are focused on the distinctive needs of local economies and the aspirations of local people.

Skills policy being fully integrated within an area's wider economic development strategy means ensuring that policy areas, such as demographic change, entrepreneurship, cohesion, European policy and cooperation, infrastructure planning and transport, all support economic development priorities. Wider economic development plans in areas like housing and spatial planning can help to retain skilled workers in the area.

For areas with high numbers of micro- and small-sized companies, with few headquarters of larger companies and no significant, 'anchor' international company (of which the North has many), a successful skills strategy has to look at ways to assist SMEs, especially to address their difficulties in medium- to long-term human resources planning.

Skills policy in practice requires a systematic process of local needs assessment, gap analysis and action planning, including commissioning of skills actions and identification of migration targets. This information should be made available to schools, colleges, careers services and other agencies in order to help parents, trainees and school-leavers to understand areas of potential future employment. In addition, establishments at all educational levels (from secondary to university) should be encouraged to work together with industry.

As well as growing the skills and capabilities of local people in technical and entrepreneurial activities, regions need to be actively supporting the inflow of technical expertise. Initiatives to attract 'knowledge workers' can include incentivising the relocation of top scientists, a student scholarship scheme in key disciplines, and a strong programme of enterprise education for schools and colleges.

The flexibility and adaptability of the workforce is crucial to both attracting of investors and providing security and opportunities for people living in the area. To help achieve this, regions need to promote an active approach to lifelong learning, opportunities for flexible working such as part-time and portfolio working, and has a regional approach to supporting job security.

Locally managed partnerships at a sector level have been shown to be highly effective at addressing strategic workforce issues affecting groups of firms operating in the same industry in a specific region, including:

- using labour market information and employer engagement to develop a shared understanding of the critical skills challenges facing the industry
- working with training providers and welfare-to-work providers to fill skills gaps

- creating career ladders for low- and middle-income workers to assist incumbent workers to advance and unemployed workers to (re)enter and progress in the industry
- stimulating employer demand for skills.
- connecting firms within a sector to community colleges and training providers, labour representatives, the workforce and other stakeholders in order to develop customised training solutions at the industry (not individual firm) level, covering short-term skills gaps as well as long-term plans to grow the industry.
- resolving systemic and structural barriers to inter-firm cooperation by acting as a neutral intermediary, which was seen as critical.

It is important however to not underestimate the cost and time required to establish effective collaboration. The OECD found in respect of Michigan that employers thought that such clusters were useful but were not yet willing to pay for them.

5.3 Recommendations: the importance of a local/city-region approach

The city-region emerges as the appropriate and correct level for this kind of coordination and orchestration, for two reasons. First, the geography of city-regions (and their rural counterparts) reflects real travel-to-work and travel-to-learn areas. Second, the city-region is a sensible scale at which to engage with businesses and develop local networks of employers and employee or trade union representatives, particularly in key growth industries. It is simply not possible to do this in a meaningful way from central government, other than with the very largest employers.

Recommendation 1: Institutions

We do not believe that the North should recreate heavy-handed bureaucratic organisations for the planning of skills provision. There is, however, the need for intelligent local intermediaries that are empowered to orchestrate the employment and skills system at the city-regional level and to facilitate stakeholder partnerships between employers, employee representatives and training providers. While LEPs (or other emerging city-regional models, such as combined authorities) would seem to be the obvious candidates to perform this role, they currently lack the capacity to do so effectively.

These partners each play a crucial role - employer representatives make sure training is relevant to firms, employee representatives make sure it supports better wages and job mobility, state representatives ensure public money is spent well. Ultimately these intermediaries should have full control over the organisation, funding and delivery of adult skills – true partnerships rather than ‘talking shops’ – and be organised by sector. Each sectoral partnership would help set strategic priorities, develop broad qualification frameworks and set occupational standards and licensing requirements for their respective sectors (Lanning and Lawton 2012). In the short term, we recommend that LEPs and their local authority partners should take greater responsibility for linking up skills, employment and growth in their local area.

- They should identify leading vocational centres of excellence in their areas, focused on the key future growth sectors identified in their emerging local economic strategies.
- They should facilitate and host stakeholder partnership organisations around key growth sectors, clusters and supply chains. These would bring together representatives of employers, training providers, welfare-to-work providers, employees, trade unions and the state, with a remit to:

- identify current and future demand for skills in the sector, cluster or supply chain and draw up skills action plans to address both short- and long-term industry skills needs
- facilitate networking and linkages between partners to improve information flows and coordination, including local employers’ networks
- shape the content of training courses to ensure skills needs are met now and in the future
- identify strategic funding priorities for skills in their sector, developing qualification frameworks for their sector, and setting occupational standards and any licensing arrangements
- use a sector-specific approach to ‘renovate’ under-performing sectors and promote the good ones, working with businesses and trade unions and building, in a slow but determined fashion, a focus on incentives, skills training and wage and other conditions to improve the sector’s position.

Looking at those northern European countries that have markedly better performing vocational education systems and much stronger employer demand for skills, the idea of stakeholder partnership stands out. Bringing together employers with employee representatives and trade unions across a sector, cluster or supply chain creates opportunities for forging links, strengthening business relationships and embedding them in a place. Collectively, these networks can begin to identify the future skills needs of their industry or cluster, filling informational gaps and sharing costs (Lawton and Lanning 2012). Networks have also been identified as the most effective means of increasing employer demand for skills, recasting the provision of skills as a collective good and reducing the fear of poaching (UKCES 2009).

- They should create more local apprenticeship hubs to enable employers to collaborate and develop the content of on- and off-the-job training, working through the stakeholder partnerships described above.
- They should use their evidence base to seek to align public resources from all levels to deliver better coordinated results, covering issues such as transport connections needed to improve access for low-paid workers, and including co-location of and resource sharing between local and national services.
- They should promote social and work innovation and an increase in lifelong learning throughout the labour market.
- They should build links between universities and local employers and promote an increase in mature study to improve the North’s ability to retain graduates.
- They should work to improve careers advice and get the right information to parents and pupils as what they want heavily influences what training providers provide. Careers guidance is seen by many LEPs as the number one issue in desperate need of a coherent strategy. It is hard to address as responsibility is devolved to individual schools – with funding gone, each school is dealing with this in different ways which makes it very hard for LEPs to influence.

A key omission in the composition of LEP boards at the moment is employee representation – such representatives would be particularly helpful in the sphere of skills. Likewise, as LEPs’ role in skills expands, so too must their level of democratic accountability – a move towards combined authorities or metro mayors are ways of providing this, but by no means the only ways. Equally important is for central government to provide more clarity around the envisaged role of LEPs in the wider skills system. This

clarity and coordination is also required at a national strategic level. In particular, BIS, DWP and Education programmes need to be more joined-up with targets currently all pulling in different directions. This lack of coordination, and the difficulty of LEPs having to interact with too many central government departments, undermines efforts to develop a coherent approach at the LEP level. Both Whitehall and the LEPs must adapt if the vision articulated in this report of better a functioning skills system is to be realised.

Recommendation 2: Funding

LEPs and their local authority partners should be responsible for coordinating the budget for adult further education, skills and apprenticeships, which currently stands at £3.8 billion for 2012/13. This would give them much greater traction in the employment and skills system. Most of this funding would still be expected to go to colleges and training providers to deliver high-quality education and skills, as well as off-the-job training elements of apprenticeships, in response to local demand. However, LEPs themselves should have direct control over some of this budget (say, 5–10 per cent) to enable them to deliver their growth plans. So, for example, they might choose to provide seed funding for particular training courses to support the development of a key growth cluster, or to create a funding pot to which stakeholder partnerships can apply for match-funding for in-work training or to improve advice services. LEPs and their local authority partners should be provided with the resources to continue to experiment and develop different models, such as the Liverpool skills bank and the Sheffield city-region local skills funding model (see section 4.2).

Recommendation 3: Information and intelligence

LEPs should play a key role in orchestrating the connections between skills and employment systems in their area. In particular, this requires central government to increase capacity for robust labour market intelligence. Increasing capacity will enable regions to conduct detailed research to identify the sectors and clusters that have potential to deliver economic growth, and the support that those sectors and clusters need – including skills. To do this, LEPs will need to strengthen their own core capacity. The government has provided LEPs with temporary additional core funding (for two years) – this should be made permanent. LEPs and combined authorities need to be put on a more secure footing to take forward this work over the long term. This should be a core responsibility, and a move toward competitive bidding will not provide the certainty of funding required for sustainable and reliable market intelligence-gathering.

In the post-War period, many areas in the North had long-established industries in which the majority of local people found work for life making the matching of skills to demand relatively simple. Nowadays the economy is changing so rapidly and many of the large traditional employers have disappeared making it much harder to identify skills needs in advance. Local and sufficiently well-resourced labour market intelligence gathering is the only option for attempting to match skills supply and demand in a meaningful way.

More robust labour market intelligence can also be used to target more effectively those skills policies aimed at enabling disadvantaged individuals to engage in the labour market. For these policies to have maximum impact, they require programmes which can directly connect the disadvantaged to active roles in employment situations, training targeted at these individuals to address particular skills deficiencies, and training being embedded within broader employment support strategies.

Better local data collection and analysis may start to address the long running problem that poverty is experienced at the household level while skills policy targets individuals.

Recommendation 4: Apprenticeships

It must be a priority to improve the supply of high-quality apprenticeship places and to ensure that all young people are able to stay on in education and training of a kind that will equip them with the skills needed for employment. There should be a move away from intermediate apprenticeships in favour of advanced apprenticeships: the National Apprenticeship Service and its partners should aim to double the number of young people in advanced (level 3) apprenticeships by 2015, from 30,000 to 60,000.

This must be accompanied by a major expansion of pre-apprenticeship training programmes in northern further education colleges, as part of a programme to ensure all unqualified and low-skilled 16- to 19-year-olds achieve a minimum standard of education. This would need to focus particularly on key areas such as numeracy and literacy. At the end of the course, young people should have the skills they need to take up an apprenticeship if they wish to (Dolphin and Lanning 2011).

These two actions, taken together, imply shifting funding away from intermediate apprenticeships in order to expand the provision of advanced apprenticeships for young people and pre-apprenticeship training.

However, experience suggests that simply increasing the supply of apprenticeships in response to a target set by policymakers will be ineffective. The increase in advanced and higher apprenticeships needs to be rooted in employer demand for people with these qualifications.

Expanding apprenticeships will be critical for northern city-regions to begin to fill the skills shortages they face in skilled trades and associate professional occupations. But demand for apprenticeships must come from employers, who should be more directly involved in designing the content and delivery of apprenticeships. The North should learn from successful northern European countries here and create a stakeholder partnership model for managing apprenticeships. Crucial here is the development of local apprenticeship hubs or associations to bring together employers, training providers, sector networks and trade unions to plan and deliver apprenticeship places. Through collective purchasing of off-the-job training, this could also be a more cost-effective approach (Fuller and Unwin 2011).

Recommendation 5: Lifelong learning

Given changing demographics, it is essential to mobilise the whole of the labour force, including the number of people over the age of 50 facing unemployment as a result of the changing labour market. This is a particular challenge for the north of England given the impact of cuts in public sector employment and it has the potential to lead to significant levels of poverty in older age, especially among older women, who are disproportionately affected by these cuts, and changes in pension entitlements. To this end, within local skills policy there should be a concerted strategy to support older workers to secure work and to establish new enterprises, supported by national and local strategies to enhance lifelong learning throughout the labour market.

This is particularly important for those sectors where low-skill, low-wage work is more common (which include retail, hospitality, storage and distribution, and food processing firms), and low-paid service occupations (which include care workers, nursing assistants and fitness instructors). Low levels of ongoing training are particularly prevalent in domestically-traded service industries. These have close to no global competition, benefit from consumer demand which is stable or expanding and often provide services

for which it is difficult for consumers to access their quality before the event (Lanning and Lawton 2012).

Lifelong learning and work progression have a key role to play in increasing social mobility and reducing in-work poverty.

Recommendation 6: Integrate employment and skills

It is clear that skills policy has a critical role to play in both growing the northern economy and delivering on the ambition to provide more good-quality, well-paying jobs. But the North's ability to develop a world-class skills system is currently hampered by fragmentation. Policies covering skills, education, welfare-to-work, economic growth and active industrial strategy all need to be mutually reinforcing. Unfortunately, a lack of coordination by Whitehall departments and conflicting objectives mean this does not happen at the local level.

Creating truly empowered city-regions requires central government to decentralise other tools, powers and funding to local bodies in order to tackle their distinctive labour market challenges. As such, in the medium term, we recommend the devolution of a significant proportion of welfare-to-work funding to local authorities and their partners in city-regions and their rural counterparts at scales which make sense.

There needs to be much closer integration between employment and skills policy, which in turn need to be linked into identified city-regional growth priorities. Ultimately, city-regions should have responsibility for co-commissioning the government's work programme, alongside their local industrial strategy and skills responsibilities.

This is because centrally contracted welfare-to-work programmes retain a monolithic quality: irrespective of their emphasis on personalisation, they are largely insensitive to the long-term needs of local labour markets. Rather than charging Whitehall with commissioning, a more sensible and sensitive approach would be to align the commissioning of skills with welfare-to-work locally, where more sophisticated and flexible planning and contract design can occur.

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