

FUTURE-READY SKILLS COMMISSION

WORKFORCE SKILLS: BRIEFING PAPER

Summary

- This briefing paper seeks to promote discussion by presenting proposed outcomes for workforce skills, the challenges that currently limit our ability to realise those outcomes and a set of indicative actions that could help to address these issues.
- The topic of workforce skills is of considerable importance when viewed in the context of the current challenges around weak productivity growth, low pay and stalled social mobility. Enhanced skills can contribute to better business performance and improved prospects for individuals.
- An effective approach to workforce skills means enabling businesses to get the skills that they need and to deploy them to best effect in the workplace. The other side of the coin is to ensure that all individuals can access skills to enable them to enter and progress within high quality careers. The evidence suggests that our current approach is not delivering against these outcomes.
- The key issues that limit progress include low levels of participation in learning, under-investment by government, employers and individuals and a lack of inclusive access to training and development. There are also concerns about how the reformed apprenticeship system will contribute to a sustainable approach to workforce skills.
- However, a lack of demand for training is a key issue among employers and individuals. Some sectors and local economies are caught in a “low-skill trap”, where businesses typically compete on the basis of price with low skills and low wages and are less likely to be actively looking to upgrade the skills of their workers. For individuals lack of certainty around the returns from an investment in learning is also an important consideration.
- There are a range of actions that local areas can take, using the levers that are already available to them; particularly, devolved powers could usefully supplement these and there is a range of suggested actions that national government should take to move this agenda forward.

1 Introduction

Along with technical education and training and careers information and inspiration, workforce skills is one of three themes that is being considered by the Commission.

This briefing paper aims to set out the outcomes that would flow from an effective approach to workforce skills and examines the current performance of the system relative to those desired outcomes. It then examines the key issues that limit our progress in this area and sets out some indicative actions that could help to address these issues at paragraph 9, page 13.

The aim is to provoke discussion around the following questions:

- Are these the right outcomes?
- Have we diagnosed the key issues?
- What actions should we be taking, not just through the publicly funded system but through wider action by employers and individuals?

2 What do we mean by workforce skills?

- Upskilling of staff in the workplace to address business needs
- Re-skilling and upskilling of individuals in response to a changing labour market – including people in employment as well as out of work
- Utilising available skills fully in the workplace to drive competitiveness and productivity and earnings.

3 Why are workforce skills important?

With two-thirds of the workforce of 2030 having already left full-time education¹, a focus on the skills of the existing workforce, as well as on new entrants to the labour force, is crucial to future economic performance.

As is well documented, the UK faces a considerable productivity challenge. Since the recession, productivity growth has lagged behind the long-run historic trend and has also fallen behind the performance of key international competitors. This has important implications for economic growth and for wider living standards.

The skills of the workforce are an important factor in driving productivity growth, both at the level of the individual firm and across the wider economy. One study estimates that, in the run-up to the 2008–09 financial crisis, the improving skills profile accounted for around 20% of total labour productivity growth in the UK and continued to make a positive contribution thereafter². Another study found that an increase in training by one percentage point at industry level is associated with an increase in productivity (value added) of about 0.6%, and in wages of about 0.3%³.

The UK also faces an endemic low pay problem with just 1 in 6 low-paid workers (17 per cent) managing to permanently escape from low pay in the last decade. Meanwhile, a quarter of low-paid workers remained stuck in low pay jobs⁴. From a broader social mobility perspective, access to the professions, along with other labour market progression indicators, has been broadly flat in recent years.

Skills development in the workplace and wider adult education can help to address this. Participation in training increases the likelihood of permanent employment, in-

¹ <https://www.ippr.org/research/publications/skills-2030-another-lost-decade>

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486500/BIS-15-704-UK-skills-and-productivity-in-an-international-context.pdf

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32303/12-766-estimating-impact-training-on-productivity.pdf

⁴ <https://www.gov.uk/government/publications/low-pay-and-labour-progression-the-great-escape>

work progression and increased earnings and makes a positive contribution to other social mobility indicators⁵.

Wider changes in the labour market give added importance to the issue of workforce skills, most notably the impact of automation on the pattern of demand for skills. In particular, low-skilled jobs and those that are founded on routine tasks are expected to become increasingly susceptible to automation, as well as some higher skilled jobs. Some jobs could become obsolete whilst changes in job content and skill requirements are likely to be widespread.

A report by Centre for Cities found that 1 in 5 existing jobs in British cities are likely to be displaced by 2030 as a result of automation and globalisation – amounting to 3.6m jobs in total – with retail occupations, customer service roles and warehouse jobs among those most at threat. It also found that struggling cities in the North and Midlands are more exposed to the risk of automation than cities in the South. Therefore, investment in skills will be required to support career adaptability and resilience in a changing labour market, particularly in those local areas with weak economies.

In its international review of adult learning systems the OECD also stresses the importance of population ageing (old-age dependency ratio), weaknesses in adult skills (particularly basic skills) and increasing exposure to international trade as key drivers of changes in the pattern of employment and of skills demand⁶. In turn, this creates greater urgency for concerted action on upskilling and reskilling.

A further, specific issue for the UK relates to the potential impact of Brexit upon the supply of skilled and educated migrants from the EU who currently help to address domestic labour demand.

4 What is the Commission's overall ambition?

To enhance workforce skills by creating the conditions for adults to invest in skills that meet the labour market need and employers to invest in skills for business success.

5 How will we know we have done it?

In the section below we have set out a series of indicative outcomes, for employers and for individuals, which would be delivered through an effective approach to workforce skills. Linked to these are more detailed indicators which are provided at Appendix 1.

⁵ <https://core.ac.uk/download/pdf/96839971.pdf>

⁶ https://www.oecd-ilibrary.org/education/getting-skills-right-future-ready-adult-learning-systems_9789264311756-en

Outcomes for employers and individuals

Employers	Individuals
<ul style="list-style-type: none"> • Gain and retain skills for business success • Make full use of existing staff skills • Increased staff commitment • Reduced staff turnover and recruitment costs • Higher quality products and services • Increased profits and productivity 	<ul style="list-style-type: none"> • Achieve skills to access good jobs • Achieve skills for career progression • Achieve skills for adaptability and resilience in a changing world • Have inclusive access to skills • Increased job satisfaction (in terms of skills and career development)
Contributing to the following impact on the economy	
<ul style="list-style-type: none"> • Increased employment and pay • Flexible and dynamic labour market • Better skills alignment • Productivity growth • More resilient business base • Inclusion and social mobility 	

6 What is currently being done to address workforce skills?

There is a range of publicly-funded activity that addresses the workforce skills agenda:

- **National Careers Service** – information advice and guidance for adults, both in-work and unemployed. Has a focus on some cohorts, for example those at risk of redundancy, and adults without a level 2 qualification.
- **Apprenticeships** – employers can invest in the skills of their new recruits and existing workers, with government support.
- **Adult Education Budget (AEB)** – funding for adult education and training, with a strong focus on support for the unemployed and those with low skills.
- **National Retraining Scheme (NRS)** is currently in development and planned to roll out later in 2019. Primarily targeted at low waged and low skilled adults to support them to re-train and get better jobs in response to changes in the labour market such as automation and the demand for skills from specific sectors for example, construction.
- **Investors in People** is an accreditation award for employers that achieve a standard in managing its people and good practice in training and development in order to enhance a company's overall performance. It is estimated that around 1/3 of employers hold the award.

- **European Social Fund** is an important source of funding designed to support individuals with the acquisition of new skills and finding better employment. ESF will continue until 2020 and then will be replaced by Shared Prosperity Fund currently in development.
- **Advanced Learner Loans** are available to adults (aged 19+) studying an approved qualification between levels 3-6. A catalogue of qualifications eligible for funding is produced by the Education and Skills Funding Agency (ESFA). Loans are paid directly to the approved learning provider to cover the costs of tuition. Those studying a level 3 for the first time are eligible for full funding.
- **Job Centre Plus (JCP+)** offers support those looking for work to get a job.
- **Fuller working lives** programme is a partnership led by Department for Work and Pensions (DWP) to support older workers in the workplace to increase their income and well-being and help employers retain skills.

However, as noted below, government intervention forms only a small part of total activity in this field.

- **Employers** make a substantial investment in job-related training and in the development of working practices that deploy workers' skills to best effect in terms of business performance. It is estimated that employers invest a total of £44bn per annum in job-related training⁷, approximately 80 per cent of total investment in this area.
- **Individuals** also invest their own time and money in skills for career development and are estimated to contribute around 9 per cent of total investment in training⁸. Learner loans are available to support this through the FE system but some individuals finance their own learning.

7 How is the current system performing?

Based on the available evidence the existing approach to workforce skills is not delivering against our desired outcomes.

- Many employers say that they cannot access the skills that they need, either through the recruitment process or from their existing staff. It is estimated that 22 per cent of vacancies are difficult to fill due a shortage of candidates with the required skills, whilst around one in 20 employees lack full proficiency in their jobs⁹. 27 per cent of UK employers believe that a lack of staff with the right skills is a major obstacle to future investment¹⁰.
- Employers also say that they don't make full use of their employees' existing skills. Around a third say they have employees whose skills are in advance of those needed by the business whilst they estimate that they under-utilise the skills and qualifications of 9% of their staff¹¹. From the employee perspective the

⁷ <https://www.gov.uk/government/publications/employer-skills-survey-2017-uk-report>

⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/523037/bis-16-47-mapping-skills-investment.pdf

⁹ <https://www.gov.uk/government/publications/employer-skills-survey-2017-uk-report>

¹⁰ <https://www.eib.org/en/about/economic-research/surveys-data/investment-survey.htm>

¹¹ <https://www.gov.uk/government/publications/employer-skills-survey-2017-uk-report>

figures are much higher; 32 per cent of workers believe they are overqualified for their job and 37 per cent feel they are over-skilled. Barely one half (51 per cent) feel that they have the right skills for their job¹².

- Only 9% of all employers are classed as high performance working employers, in the sense that they have adopted a bundle of practices that are intended to stimulate more effective employee involvement and commitment in order to achieve high levels of performance.
- Many jobless and low-paid individuals lack the skills that are in-demand in the labour market. Around 29 per cent of the unemployed and 40 per cent of people in the lowest-paid occupations lack a qualification at level 2 and above, the level usually associated with basic employability.
- Levels of job satisfaction in respect of learning and career development are relatively low. According to the CIPD's only 49% of workers agree with the proposition that "My job offers good opportunities to develop my skills" and 51% agree that "I receive the training and information I need to do my job well". Meanwhile, only 30% agree that "My job offers good prospects for career advancement".

Although skills is only one factor among many, this contributes to the current situation of weak productivity growth, stagnant pay, acute skills shortages and gaps and economic exclusion and lack of social mobility.

8 What are the issues that limit progress?

A range of issues in the workforce skills arena militate against employers getting the skills they need and limit the ability of individuals to get the skills they need to fulfil their personal potential.

8.1 Participation by individuals and employers in workforce skills development is limited

The proportion of adults participating in learning has remained largely constant in recent years. Based on the Learning and Working Institute's 2017 participation survey, 19% of adults are currently undertaking learning, with a further 17% having done so in the last year. Participation trends suggest there has been no sustained increase in learning participation in the past 20 years¹³.

Looking specifically at job-related training, the proportion of adults participating over a three month period has shown signs of decline since the early part of the last decade. In 2004 around 29% of people in employment received job-related training but the latest figures, for 2018, show that this proportion is now around 25%.

Overall, the number of funded adult learners in England fell by nearly one-third between 2010/11 and 2017/18, from around 3.2m to 2.2m. Crucially, the proportion of adults who are studying for and achieving qualifications at levels 2 or 3 after the age of 19 ("second chance" learners) is in decline. The number achieving a full level

¹² <https://www.cipd.co.uk/knowledge/work/trends/uk-working-lives>

¹³ <https://www.learningandwork.org.uk/our-work/promoting-learning-and-skills/participation-survey/rates-of-adult-participation-in-learning/>

2 fell by 71% between 2011/12 and 2017/18 to a level of 157,000, whilst the number achieving a full level 3 fell by 21% over the same period to 171,000¹⁴.

Similarly, the number of individuals entering part-time undergraduate study in higher education, a key route for mature students to develop skills for career development, declined by 60 per cent in the decade to 2017/18. At the same time the number of people undertaking higher technical qualifications at level 4 and 5, such as HND/Cs and foundation degrees has also fallen sharply¹⁵. In both cases this is believed to be primarily due to barriers arising out of the student loan eligibility criteria.

According to the Employer Skills Survey 2017, 66% of employer establishments say that they arranged training for their staff in the previous 12 months, a figure that has remained virtually flat since 2011. A similar static picture also prevails with reference to the proportion of the workforce trained (62% in 2017), total days training (114m) and training days per employee (4.0).

Around two-fifths of all employers acknowledge they under-invest in training in that they either do no training but would like to do some or that they undertake some training but would like to do more. The remaining 60% are in “training equilibrium” – they feel that they undertake enough training to meet their business needs.

Among those employers who would like to do more training the main barriers are a lack of funds for training (52%) and a lack of time to release staff to undertake training (48%) or to arrange training (19%). Other barriers, such as a lack of appropriate training (6%) and a lack of knowledge about training opportunities (4%) are much less significant, suggesting that employers generally feel that an investment in training does not offer a suitable return for their business.

A majority of employers lack the structured mechanisms needed to link investment in training to wider business needs. For example, 48% of establishments have a training plan and 37% have a training budget.

8.2 There is under-investment in adult skills

Employers, individuals and the government each make financial contributions to adult skills development, but the indications are that the recent decline in grant funding from government has not been offset by an increase in investment by businesses and individuals.

- By international standards the UK spends relatively little on vocational skills and investment in labour market support to increase adult skill levels. For example, in 2015, the amount spent per employee on training in the UK was just half of the EU-28 average¹⁶.
- Since 2010, the level of training funded by government has decreased. Funding for adult education and apprenticeships stood at £2.3 billion in 2017–18. Around half of this represents 19+ further education in classroom settings, about a third

¹⁴ <https://www.gov.uk/government/statistics/further-education-and-skills-march-2019>

¹⁵ <https://www.hesa.ac.uk/data-and-analysis/students>

¹⁶ Figures taken from <http://ec.europa.eu/eurostat/web/education-and-training/data/database> ‘Cost of CVT courses by type and size class - cost per person employed in all enterprises (trng_cvt_17s)’

represents spending on work-based training for individuals aged 19+ (which includes apprenticeships) and the rest is made up of smaller programmes such as community learning. According to the IFS, the level of funding has fallen by around 45% in real-terms since 2009/10¹⁷.

- The level of employer funding has stayed flat over the same period. Total training expenditure increased by around one per cent between 2011 and 2017, in 2011 prices to a total value of £44m. The total value of training expenditure per employee has also remained steady at approximately £1,500 per annum¹⁸.
- This leaves individuals to fund more of their own training, which presents difficulties since cost is an important barrier to participation.

Students aged at least 19 taking a qualification at Levels 3–6 who are not entitled to support through the adult education budget have the option of taking out advanced learner loans to fund their studies. They are income-contingent, meaning that the amount a student repays each month is linked to how much they earn. The value of learner loans is small in comparison to HE loans: when support for HE students through maintenance loans (which are not available to FE students) is included, new HE loans were worth 65 times as much as new learner loans. The number of people taking out learner loans has fallen year on year since their introduction¹⁹.

Moreover, it is important not to place too great an emphasis on the role of government: government-funded provision only accounts for a small proportion of total training activity – around 7 per cent. Therefore, changing the wider attitudes and behaviour of employers and individuals is an essential requirement.

The OECD's international assessment of adult learning finds the UK falls below the OECD average and some way behind leading countries, on the basis of its approach to financing, taking into account investment by government, employers and individuals themselves.

¹⁷ <https://www.ifs.org.uk/uploads/publications/comms/R150.pdf>

¹⁸ <https://www.gov.uk/government/publications/employer-skills-survey-2017-uk-report>

¹⁹ <https://feweek.co.uk/2019/01/24/learners-starting-fe-loans-funded-courses-falls-for-third-consecutive-year/>

Figure 1: OECD dashboard on priorities for adult learning: financing



Source: <http://www.oecd.org/employment/skills-and-work/adult-learning/dashboard.htm>

8.3 But with lack of demand in some cases

Some sectors of the economy, such as the accommodation and food services, have low demand for skills, and very limited opportunities for worker progression at company level, as well as low pay and productivity²⁰. This limits the incentives and scope for employers and workers to invest in workforce development and hence constrains the supply of skills.

Lack of demand for skills tends to be particularly acute in local areas with already weak economies that are reliant on these sectors or where levels of productivity within sectors locally are lower than the national average. These areas are characterised as being in low skills equilibrium of a low skills trap: the labour market is in balance but businesses typically compete on basis of price with low skills and low wages and are less likely to be actively looking to upgrade the skills of their workers²¹.

8.4 Uncertainty over future outcomes deters investment by individuals

A programme of consultation by Greater London Authority into its 'Skills for Londoners 2018 Strategy' yields valuable insights into individuals' attitudes to upskilling options²². It found that people from social groups are convinced of the value of learning and that they appreciate the connection between learning and

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652973/The_Great_Escape_-_Report.pdf

²¹

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/593923/LowSkillsTraps_final.pdf

²² <https://data.london.gov.uk/dataset/skills-for-londoners-2018-strategy-consultation>

increased earnings, as well as the importance of formal qualifications in getting ahead in C1C2DE the labour market. Practical issues like cost and time are key barriers to participating in learning, with time a particular concern for those with young children. 49% of Londoners said that cost was a barrier to taking on learning opportunities.

However, the uncertainty associated with an investment in learning also acted as a deterrent. Individuals found it hard to know how to assess the quality of a course or qualification, or how well regarded it would be by employers. 24% of Londoners said that they did not know what type of training would help them progress in their career.

There was also a lack of awareness of finance options, including Adult Education Budget entitlements and learner loans.

8.5 Access to workforce skills is not inclusive

There is stark evidence to show that the likelihood of receiving training varies by workforce group, with the groups most in need of upskilling least likely to gain access to it:

- Graduates are four times more likely to participate in job-related training than those with no qualifications.
- Twice as many people in managerial, professional and associate professional occupations access training (30 per cent) compared to those in routine and manual occupations (15 per cent).
- According to one survey-based estimate 49 per cent of people from the lowest social grades had not undertaken any learning (i.e. any education or training) since they left school²³.
- There is also an intergenerational aspect – individuals whose parents were working class are less likely to do training than if their parents were middle class – even though they are doing the same type of job.
- In addition, people working in the public sector are almost twice as likely to receive training as those working in the private sector (38% versus 20%).

Reduced expenditure by government (see above) intensifies the lack of inclusion since Government-funded provision targets support on the disadvantaged whilst better-off individuals are also more likely to fund their own training. A key reason for this is that investment in adult skills provides the greatest return to those who already have a high level of skills.

Analysis by OECD indicates that the UK lags behind the UK average in terms of the inclusiveness of its adult skills system, taking into account the gap in access for older workers, the low-paid, the low-skilled and for people excluded from the labour market.

²³ <http://www.learningandwork.org.uk.gridhosted.co.uk/wp-content/uploads/2017/01/2015-Adult-Participation-in-Learning-Headline-Findings.pdf>

Figure 2: OECD dashboard on priorities for adult learning: inclusiveness



Source: <http://www.oecd.org/employment/skills-and-work/adult-learning/dashboard.htm>

8.6 The apprenticeship reforms are having a mixed impact

Apprenticeships represent the government’s main intervention in the field of workplace training. As jobs with training, apprenticeships are well-aligned with the needs of the wider labour market and the introduction of the apprenticeship levy is likely to strengthen the demand-led approach. And this impact is not limited to new recruits: almost a half of apprentices at levels 2 and 3 are existing employees, rising to 60% of higher apprentices²⁴. An indication that apprenticeships are becoming more responsive to employer demand as a result of the levy is the increase in the proportion of starts that are at a higher level, from 6% in quarter 1 of 2016/17 to 19% in quarter 1 of 2018/19.

However, some employers have so far made limited use of the funds available through the levy, reflected in a large drop in apprenticeship starts in the 2017/18 academic year. Concerns have also been expressed²⁵ about the sustainability of the programme as employers are developing and choosing more expensive apprenticeship standards at higher levels than was expected, with implications for the level of public funding that is being drawn down and future apprenticeship growth.

Even though only large employers are required to pay the levy, the proceeds from it are meant to fund the apprenticeships of all employers in England who want them, including SMEs. The government has under-estimated the level of demand that

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/659709/Apprenticeships_evaluation_2017-learners.pdf

²⁵ <https://www.nao.org.uk/report/the-apprenticeships-programme/>

would be placed on levy resources by levy payers, creating a risk that SMEs will be starved of funding hampering the development of workforce skills among these smaller companies²⁶.

There are also concerns that the levy (and the associated public funding) is being used to fund training that employers would have undertaken in any event and that the increasing focus on higher level apprenticeships limits the scope to invest in apprenticeships for lower-skilled workers, reinforcing existing inequalities in access to job-related training.

²⁶ <https://www.aelp.org.uk/media/3047/parliamentary-newsletter-no26-march-2019.pdf>

9 What more could local areas do to address the issues?

The following are for discussion by the Commission by illustrating some of the potential actions that could be taken to address workforce skills issues.

9.1 With existing levers:

- Instigate campaigns to mobilise local businesses and people around the importance of skills and to promote the available support options.
- Promote career pathways to individuals to raise awareness and encourage investment in skills by individuals.
- Pursue delivery agreements with education and training institutions to align provision with the needs of employers and the economy.
- Support collaboration and sharing of best practice among businesses on developing and utilising skills; for example, promote collaboration structured around supply chains as part of wider Local Industrial Strategy arrangements.
- Strengthen brokerage to enable employers to connect with the support services they need.
- Engage with Jobcentre Plus to increase the focus on the client's career development and associated skill needs as part of personalised support provided by Work Coaches.
- Work with higher education to develop an integrated support offer around innovation and skills.
- Participate in sector deals to raise employer investment in skills.

9.2 Under a devolved system

- Implement local industrial strategies that raise business performance and productivity and as a result increase demand for skills. At the same time ensure that skills supply measures are in place to address this demand.
- Invest in high quality learning facilities to meet needs of business and economy
- Develop programmes for the jobless and low-paid that address skills needs in the context of the wider needs / barriers of these groups.
- Use commissioning powers (for AEB and other funding streams) to align the curriculum offer of local institutions with local industrial strategy priorities.
- Implement local all-age careers hub and Retraining Scheme to raise awareness of career pathways among adults and to support access to relevant learning opportunities.
- Retain apprenticeship levy surpluses locally to invest in areas of skills need.
- Use Shared Prosperity Fund as an enhanced / responsive mechanism to target resource on local skill priorities.

9.3 Lobby national government for:

- The increased funding that is required to address skills needs
- A coherent all-age careers strategy
- A National Retraining scheme that can be flexed to meet local needs
- Increased promotion of learner loans
- Changes to apprenticeship rules to promote inclusive access to training.

Appendix 1

Key indicators linked to the proposed outputs and outcomes

Output / outcome	Indicator	Baseline	Aspiration (for 2030)
Outputs			
Participation	% of adults participating in learning (currently learning or learning in last 3 years)	36%	
	% of people in employment receiving job-related training	24.5%	
	% of employers training staff over the last 12 months	66%	
Attainment	Number of adults achieving a full level 2 or 3 qualification through publicly-funded HE	328,000	
Outcomes			
Skills for business success	% of vacancies that are skill shortages	22%	
	% of establishments with skills gaps (i.e. with staff not fully proficient)	13%	
Make full use of skills of workforce	% of employers who say the skills of their staff are under-utilised	35%	
Increased staff commitment	% of employers implementing high performance working practices	9%	
Skills to access good jobs	% of jobless people who are qualified below level 2	29%	
Skills for career progression	% of people in employment in routine / low-paid occupations who are qualified below level 2	35%	
	% of jobs paying below the Real Living Wage	22.9%	
Inclusive access to skills	Gap in participation in job-related training between graduates and people with no qualifications	23 percentage points	
Job satisfaction	% of workers who agree that “My job offers good opportunities to develop my skills”	49%	
	% of workers who agree that “My job offers good prospects for career advancement”	30%	