

Future-Ready Skills Commission

Five Year Skills Plan

Technical paper
September 2020



Recommendation: Recognise that local areas are best placed to understand and design solutions to their own skills requirements and should develop and **implement statutory five-year strategic skills plans** to address them

Ambition statement:

All regions will have in place a clear and comprehensive strategic agenda and plan of action for ensuring that the skill system addresses the longer-term needs of their economies, providing a clear road-map to improvements in business productivity and to better pay and career prospects for residents. The education and training sector, working at the regional level, will operate within a stable policy and funding environment with greater scope to plan ahead with the region's needs in mind. The strategy will be future-proofed, ensuring that the region is prepared for emerging challenges and opportunities and will drive the development of a system that is more agile, responsive and resilient, with employers at its heart. Governance arrangements can be flexed to take account of differing circumstances at the regional level but in all cases will provide accountability and transparency for the use of devolved funding and powers.

Rationale:

Under current government policy, all LEPs have been mandated to put in place Skills Advisory Panels (SAPs), which are charged with identifying and addressing skills priorities at regional level. This proposal for a statutory five-year skills plan would give SAPs genuine influence and the ability to shape local skills provision in line with the needs of employers and the economy and would demonstrate the critical importance of this agenda. This approach would also provide real accountability and transparency for the exercise of devolved powers and funding across the full spectrum of skills policy areas, supported by a flexible approach to governance that extends beyond the current mayoral model, and takes account of differing circumstances across regions.

Ensuring that the skills system is responsive to needs at regional level is central to the development and implementation of economic strategies and to the promotion of inclusive growth at regional level. This is particularly important at the present time as areas seek to respond to the impact of Covid-19 on their economies and labour markets, while maintaining their focus on ongoing challenges such as automation and demographic change.

The provision of education and training at regional and local levels play a key role in ensuring that employers can get the skills that they need to meet business objectives and to raise productivity, at the same time supporting the development of the regional economy and driving positive outcomes for individuals.

The regional dimension is important because the pattern and causes of skill needs at this level are distinctive in character, reflecting the nature of regional economies. Outcomes from learning also vary at regional level, reflecting the differing nature of regional labour markets and variations in the capacity and capability of local

providers. This means that regional partners need to take lead responsibility for identifying skills needs at this level and putting in place effective responses to these needs.

Education and training providers are largely driven by the pattern of demand from individuals and specific employers, as well as funding rules that determine financial viability of provision. This does not always mirror the wider pattern of demand in the regional economy. Market signals are not transmitted effectively to individuals under current arrangements for careers information and advice. Moreover, technical skills provision is usually expensive and there is little incentive to offer it under current funding rules.

Current funding arrangements also encourage providers to take a short-term view. Meanwhile, the rapid pace of change in the labour market and constant evolution of skills needs calls for a much more forward-looking approach within the skills system at all levels.

This disconnect between the needs of the regional labour market and the profile of education and training provision has important consequences for the economy.

- In cases where demand outstrips supply there are skill shortages – jobs that are difficult to fill due to a lack of candidates with the required skills. These shortages are associated with acute wage inflation and act as a constraint on productivity growth, limiting firms' ability to develop new products and processes, implement new technology etc. A deficit of economically valuable skills in a region may also act as a barrier to inward investment.
- In cases where the supply of people with particular skills outstrips demand individuals may find it difficult to access employment in their preferred field, workers' skills may be under-utilised and wage levels driven down. This situation represents a sub-optimal investment and a waste of individual talent and ability.

It is widely accepted that radical and disruptive changes to the labour market, most notably as a result of automation, will create a need for a significant increase in adult retraining over the coming years. This reinforces the need for a strategic approach to skills issues if regions that are already overly reliant on low-skilled and public sector employment are not to be left further behind.

All of these factors support the case for greater devolution of responsibility and accountability for shaping the skills offer at the regional level.

Key facts related to performance in this area:

1. Nationally, 22% of vacancies are hard to fill due a shortage of candidates with the right skills but this is much higher for occupational areas that require technical skills that are difficult to develop. For example, the prevalence of such skill shortages is 60% for Electronics Engineers. The skills system needs to be better aligned to address these skills needs.
2. 23% of UK workers who are employed in non-graduate roles are qualified at level 4 and above – 4m people in absolute terms. This demonstrates the

scale of skills under-utilisation and suggests that people are developing high level skills that are not in strong demand among employers.

3. Nationally, one in five jobs is in an occupation that is likely to shrink by 2030 due to factors like automation, according to analysis by Nesta and Centre for Cities. But this rises to 30% for cities with struggling local economies, like Mansfield, Sunderland and Wakefield. Meanwhile, for cities like Cambridge and Oxford the figure is less than 15%. This highlights the importance of a regional response to the retraining challenge presented by changing technology and other sources of disruption.

Current landscape (national / regional / local roles and responsibilities)

Outside devolved areas the operation of the skills system is driven at the national level with very limited regional / local accountability and insufficient reference to regional and local needs.

Further education and skills provision are commissioned and contracted by a national agency - the Education and Skills Funding Agency (ESFA) - working directly with individual education and training providers. ESFA's performance management regime takes very little account of the relevance of providers' curriculum offer to local needs and there is no formal mechanism for regional and local input to decision-making.

Ofsted is responsible for the inspection of providers and its inspection framework does take account of the responsiveness of the curriculum to labour market needs. Again, though, Ofsted is a national agency and is not accountable to regional and local partners.

Sitting alongside this, Skills Advisory Panels (SAPs) bring together employers and providers under the auspices of the LEP and have a responsibility to assess regional skills needs and develop action plans to address these needs. However, SAPs have no statutory basis, no formal powers, and they have no defined package of resources to implement their recommendations.

SAP oversight currently has a limited influence over funding flows and the profile of education and training provision in most regions of the country. Ultimately, curriculum decisions need to be escalated by SAPs to national level, undermining their credibility as decision-making bodies.

Mayoral Combined Authorities aside, LEPs tend to be relatively poorly resourced with limited capacity and capability to drive forward a strategic agenda with the involvement of all stakeholder groups.

Government to:	Regions (and local) to:
<p>Put in place a statutory responsibility for all regions to develop and implement five-year skills plans</p> <p>Devolve relevant funding and responsibilities to regions as they develop their accountability mechanisms, allowing them respond flexibly to the needs of their areas within national entitlements and criteria</p> <p>Invest in the capacity of all regions to take forward a strategic agenda around skills</p> <p>Continue to develop the data resources available to regions to enable them to assess skills trends and priorities as well as the performance of local providers</p> <p>Facilitate and support best practice across local areas</p> <p>Put in place a more long-term approach to employment and skills policy-making at national level in order to provide a more stable context for local five-year plans</p>	<p>Develop and implement strategic five-year skills plans that would:</p> <p>Form part of an integrated approach to the local economic strategy of the area</p> <p>Be founded on clear local accountability, building on existing local governance arrangements. Employers will have a leadership role in developing and signing-off the strategy</p> <p>Be evidence-based and founded on a strong consensus among local partners (including employers, providers and local government) around needs and priorities</p> <p>Focus on clear instances of market failure rather than excessive planning of all aspects of the system</p> <p>Be truly strategic and forward-looking in nature, taking a joined-up and holistic approach to mobilising the local education and skills system to address current and future challenges and to make the system work better for local people and employers</p> <p>Ensure that national and devolved funding streams are used in a coherent and effective manner to support a clear strategy. Funding bids would be grounded in a strong strategic rationale and set of local priorities</p> <p>Provide clear and regular reporting on the performance of the local skills system and progress made in addressing identified challenges and opportunities, with a focus on outcomes rather than outputs.</p>

Find out more

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