

IN PERFECT HARMONY

IMPROVING SKILLS DELIVERY IN ENGLAND

JANUARY 2018



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We've all seen the headlines. Attended the meetings. Read the press releases. Skills matter to growth and innovation, but we haven't been getting it right.

Gather any group of businesses together, anywhere in England, and discussion is certain to cover skills challenges. Governments of all political shades over the past 30 years have recognised this – and tried to act.

With goodwill, and with vigour, a long series of top-down reforms have been tried. And some local innovation has been developed. In patches, real progress has been made. But the overall picture has remained challenging and – worst of all – young people and retraining adults haven't had access to a system that would help them make the most of their talents, and so increase their own and our national prosperity.

Effective skills delivery is difficult. That is why agreement on the scale of the problem is easy and why initiatives and policies too often unravel. Over the past few months, the CBI has been talking to providers, local and national government, and businesses of all sizes on what can be done. This report is the outcome of that, and builds on the recent work of the CBI on the drivers of regional growth.

And it is timely, given the rapid technological change we face, which has the potential to remake our labour market in ways which far outstrip the effects of Brexit. There is the possibility of building a country with many more higher skill, higher pay jobs if we can rise to the challenge.

Woven through all our conversations with businesses and providers were two consistent messages. Firstly, that England's skills system needs stability – the incentives, funding and regulation it uses should act as a strategic national framework that encourages local innovation and investment.

Secondly, that all involved – business, government and providers – need to change their approach to skills provision. Investment of time, collaboration and genuine partnership are essential, and will require everyone to shift behaviour, tone and practice. Local leadership within a stable national framework is the key.

The conclusions of this report are designed to make a practical contribution on how to ensure current skills reforms can be used to drive a generational change, not just another turn of the policy wheel. The Industrial Strategy can only be successful if we get this right.

Our particular thanks go to the CBI's project steering group – made up of businesses and providers – who guided our work with energy and enthusiasm.



Neil Carberry

Managing Director, CBI

Skills are critical, yet we struggle to get provision right

Skills are central to an effective, national industrial strategy

For the UK to maintain its position as a leading global economy, investment in people's skills is essential. For many years, this has been a hardy perennial of the political debate – and shortages in key fields, such as Engineering, have been widely discussed by everyone, including the CBI.

Yet, despite a long history of reforms, each version has not got delivery right – and, as the UK leaves the European Union and shapes a new economic role in the world, the importance of this issue grows. It has never been more important to get policy and provision right. The societal and economic changes being driven by technology, with growing automation and digitisation altering jobs and industries at a rapid pace, are at the heart of this increased urgency.

As part of addressing this challenge, in late 2017, the CBI conducted a wide-ranging review of the challenges and successes of the skills system in England. We have talked to providers and employers across the country. The overriding message that came through is one of endless national change and government designed rules which mitigate against long-term approaches that effectively match supply and demand in the skills market.

And, it is a market. Success in the skills system is about a million different decisions made every day, by companies, learners and providers. The goal should be to set a market framework that helps these decisions to go the right way. Not another programme where government designs provision which generates numbers – but doesn't lead to career progression or economic growth.

 *Skills relate to individuals looking within specific firms and geographies – so they have an acutely regional and local aspect.* 

All our interviewees were clear that the building blocks exist for a system that really works – but making progress requires changes of approach from all parties. We need a more strategic and less operational role from Government – offering greater flexibility at local level. At the same time employers and providers must step up to deliver provision that works, across every sector and region.

This is the right priority – skills are a solution to the productivity shortfall

The link between skills and economic success at national, regional and individual level is well-evidenced.¹ The CBI's response to the industrial strategy Green Paper in 2017 acknowledged this. We called for the UK's approach to industrial strategy to have two main outcomes: improved living standards and increasing national productivity by narrowing the productivity gap between different UK regions.² Making progress towards both goals requires effective, collaborative action on skills.

Skills are a priority for businesses because they are central to adding value – in leadership, management, production processes and innovation, enabling the introduction of new technology and knowledge transfer. The best performing businesses are those which are highly innovative, quickly adopting new technology or innovating themselves – in their products and processes as well as in business and management practices.

As the CBI has recently set out, the gap between the top and lowest performing firms in the UK is significant and rising – which has an impact on growth for companies and living standards, as productivity is a key driver of pay.³ To close that gap and raise living standards is a multi-faceted challenge for firms to tackle.⁴ But one of the main factors is how firms grow and develop the skills needed for innovation and high productivity.

At a national level, skills are crucial – with a highly skilled workforce (upper intermediate qualifications or degree level) positive for economic performance.⁵ Detailed analysis undertaken by the CBI in 2016 shows that educational attainment is a major driver of regional productivity.⁶ Areas with high school performance have higher productivity than where school and individual attainment is lower. This research also found that areas with a high proportion of business-school links were those with higher productivity.⁷

But skills, because they relate to individuals working within specific firms and geographies, have an especially regional and local aspect. The importance of having a place-based approach to any strategy or policy on skills is underlined by the fact that only 3% of the working age population move to another region within a given year.⁸ Developing and targeting of skills provision towards the needs of specific sectors, companies and occupations in companies within a region is vital.

Technology is revolutionising jobs and careers – making skills even more important

Technology is reshaping how we live and work. Just as industrialisation radically changed businesses and society, the impact of digitisation and automation on the UK economy is set to be similarly disruptive and far-reaching. Exciting opportunities will be created in new industries and job roles, however there is also concern about the future of work – whether existing jobs will be obsolete or whether inequalities will widen.

While headlines about robots causing net employment to fall may be overstated, technological change will alter the make-up of the jobs in our economy, maintaining our record high employment level (74.8%) will depend on how we adapt to this. Throughout successive revolutions – agricultural, industrial, information – the UK labour market has adapted well. But, if people are going to succeed in roles now – and in future – the skills they have, as well as their ability to upskill and reskill, will be a major determining factor. And, as we learned from economic changes in the 1970s and 1980s, navigating this change well in aggregate across the country does not mean that it has been effectively managed everywhere. We need a place-based approach to avoid some areas being left behind – boosting growth and careers in all our regions.

This is more than a macro-economic issue. Research shows that people with skills most relevant to the roles businesses need to fill, and those with 'higher' level skills, are more likely to stay in work, and thereby increase their pay and living standards.⁹ This is not the only factor impacting on career and earnings potential – geography, experience, and other background factors also play a role. Yet comparing someone qualified to A-level or equivalent experience (level 3) with a person possessing some form of 'higher education' (above A-level, what's known as level 4 or above) over a year – the person with higher qualifications will earn an average of £5070 more per year.¹⁰ Lower-level qualifications can and should be a catalyst to higher skills and earnings – with quality provision helping open-up opportunities to move on. Many of our interviewees told us that this ladder is not yet clear enough.

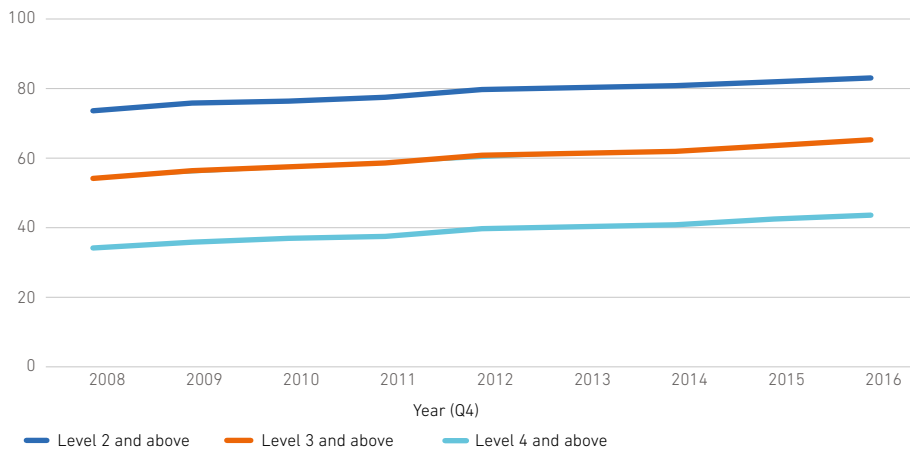
In making skills policy for the future, we were repeatedly reminded by companies and others that, of those who will be in work in 2030, 60% are already in jobs. Therefore, while education and skills for those joining the labour market is important – developing the skills of existing employees is going to be the major challenge for businesses in coming years. This will require both technical and occupational skills as well as good leadership and management to help employees, teams and whole businesses navigate this period of change. A single qualification or approach will not be able to address the breadth of need – from new joiners to experienced retrainers – this was why so many people we talked to emphasised the need for flexibility in the system, so that mismatches can be avoided.



The importance of skills has resulted in near perpetual reforms in England

Successive governments have redesigned and reformed the English skills system from the top down throughout the past three decades. The motivation has, rightly, been rooted in the economic and social importance of skills that we have just set out, alongside the persistence of shortages and gaps. As a result, since the early 1980s in England there have been 28 major pieces of legislation related to vocational, further education and skills training.¹¹ In addition to pieces of legislation there have been a range of different policies, qualification and funding streams introduced and then, in time, overhauled and replaced.

Frequent and disruptive changes have not effectively addressed genuine skills issues – often making challenges worse. Raising skill levels, addressing shortages and gaps has been correlated by policymakers and politicians of all parties with the proxy of growing qualification achievement. Since 2008 the proportion of adults with qualifications has gently increased. **(Exhibit 1).**

Exhibit 1 Highest level of qualification held by adults of working age, England 2008 to 2016¹²





A single qualification or approach will not be able to address the breadth of skills needs. This is why the system must be flexible, so that mismatches can be avoided.



Skills reforms have driven qualification numbers but not addressed skill gaps or shortages



Qualifications are only a good proxy for outcomes on skills if the qualifications are relevant to the labour market, and well-aligned to the practical skills that learners need for their work. This has not always been the case, and is one driver of the mismatch that exists between supply and demand in areas across England.

For example, a top-down government-led approach to skills – the status quo until very recently – might specify a certain qualification as being appropriate. It is likely then that many people will gain qualifications at that level, creating a political “good news” story as many thousands of people gain “higher skills.” But unless a qualification is well-matched with the competencies employers need, there is likely to be little pay-off for learners – or companies – in the longer-term.

Ending this is the logic which stands behind the new Apprenticeship standards and the prospective T-levels. While still imperfect in some ways – they are welcome, as it is only by ensuring that qualifications are co-designed by businesses that companies and – most importantly, learners – get what they need. CBI discussions with companies and providers for this year confirmed that, for years, it has been common knowledge in the skills system that some courses had big benefits for learners while others added very little – despite the two being of equal standing in qualification terms.

This challenge – that bums-on-seats matter more than the outcomes for learners – is typical of a system that is used to regular, short-termist change. Addressing it is why a longer-term, more local, approach to leadership is needed in the English system.

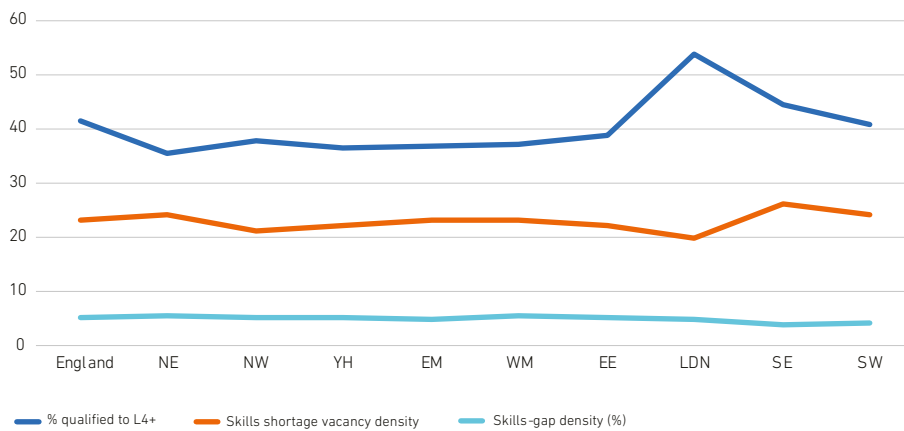
Analysis of qualification level, skill-gap and skill-shortage density demonstrates why this matters. For regions outside of London there is a very weak correlation between higher qualification levels within the population and fewer companies facing skills issues (**Exhibit 2**). Areas with a greater proportion of the workforce qualified to a higher level have only very slightly lower density of skills gaps or shortages.

 *Unless a qualification is well-matched to what employers need, there may be little pay-off for learners or companies in the longer-term.* 

It is also important to note the significant group of adults who do not have basic skills – 17.2% of those in the working-age population are effectively below GCSE level. With the importance of skills as a currency within our economy only set to increase, equipping these adults with basic skills is of growing urgency and needs to be part of a new approach. This tapestry of different needs is another reason why flexibility in the system matters.

Most of the interviewees said a different national approach to what the skills system incentivises is necessary – a focus on gaining qualification levels alone is not adequately addressing business’ skills needs or giving the individuals the necessary skills. But it also requires a new method of developing provision so training equips people with industry relevant and transferable skills.

Exhibit 2 Comparison of skills issues in English regions and qualification level



Source: CBI analysis

Incentives in England’s skills system still encourage volume not value

Skills provision is best able to benefit a learner or business by being tailored for sector, occupation and level. However, the national system incentives for providers and employers discourage the kind of positive behaviours that would foster tailoring and innovation in provision. For example, the funding rules and formula which apply to 16 to 19 skills provision have a number of different components relating to the individual and the programme of which they are part.

Taken together, these incentives explicitly encourage providers to focus on volume of qualifications – to ensure financial viability – over longer-term factors such as local labour market need, job outcomes and progression. Within school sixth forms, there are additional incentive factors – for example, cross-subsidising post-16 provision through better-funded secondary aged pupils. Many providers told us that maintaining viable school sixth forms also meant retaining pupils post-16 – even where better outcomes could be delivered for them in college or an apprenticeship.

While it is important to support people to start developing skills, it is vital to target their next step in everything we do. Despite this, around 125,000 young people each year study for qualifications at the same or lower level than those they have already achieved. Providers told us that despite the growing demand for higher and mid-level skills, too much provision is still at a low level and sets young people on a track where getting to high skills is a longer and more arduous path than it needed to be for them. Businesses recognised that providers are largely driven by this combination of learner demand and systemic incentives to focus on lower level and mass-delivered courses. Changing this should be our priority.

Regular upheaval in the skills system causes confusion and disengagement on the ground

The most common emotion shared by interviewees around the country was frustration. Perpetual top-down changes to the system have impacted behaviour and levels of engagement amongst businesses and providers. We were told that the skills mismatch is often driven by companies feeling the rug has been pulled from under their provision by policy changes, and becoming more disengaged. Providers, like colleges, feel the need to react to changing government policy, rather than seeing businesses and learners as their clients. For these reasons, local delivery does not function well, as both sides start “a long way back from the table”.¹³

This frustration for employers is enhanced by the speed and frequency of change. This is driven by political factors which do not allow adequate time for design and testing of training in advance, or effective implementation and improvement once in place. This is particularly acute amongst smaller or medium sized companies, who need to cluster together to deliver training opportunities, in partnership with larger firms or a college. Yet government accompanies top-down change with financial control that does not allow this to happen – the fear of fraud in the system is so closely policed that it can mitigate against the delivery of legitimate innovation.

This treatment of the technical and in-work systems in England is in stark contrast to that in other jurisdictions and in English academic options. In the period since 1988 the GCSE/A-level options for young people have remained fairly stable. The routes have been a clear constant, even while curriculum, grading or institutions changed. As a result, the academic options all too easily appear a 'safer' route to learners, teachers and parents.

Major national reforms and siloed approaches have not captured the complexity and changing nature of skills needs

Diagnosing the exact nature of skills problem can be challenging. We have seen that it does not easily fit a proxy, like qualifications, or a top-down government-sponsored programme which can create perverse incentives, such as the effect of the Apprenticeship Levy for many firms – making creating each new apprenticeship more expensive.

All this should tell us how complicated a challenge effective skills delivery is. National skills needs are distinct and changing – but language about skills is often lazy and imprecise. We have all seen, or even used, the headlines: 'Skills are the number one business priority'. 'Skills gaps growing'. 'Shortages in key skills'. These are familiar soundbites, but the precise needs that stand behind them are sometimes confused or unclear.

Most importantly, many interviewees told us that the language and definitions used by business, government and providers about skills can lead to challenges communicating – about the exact nature of skills issues and, importantly, the solutions needed.

Definitions

For this piece of work the CBI is using definitions that the UK Commission for Employment and Skills applied in their research during operation:

SKILL-SHORTAGE:

When an employer has a vacancy(s) which is difficult to fill because of a lack of a skilled or qualified person to take the job.

SKILLS GAP:

When a member of staff is not fully proficient in their job role.

Research with businesses and providers found that this imprecision is often because many companies frequently struggle to assess, map or articulate their skills needs – both now and for the future. This is not just related to size of company, there are a range of reasons for this; businesses may lack the capability or tools to do so, from a commonly agreed language or skills framework, or it could be uncertainty about changing business need. The result is that providers can develop skills provision with an opaque concept of what employers need and what will help learners succeed – but real clarity on what the system will fund. This uncertainty also affects local or national actors, who can conflate or misinterpret issues – as they are too often driven by what the government of the day will fund, rather than the needs of employers and learners.

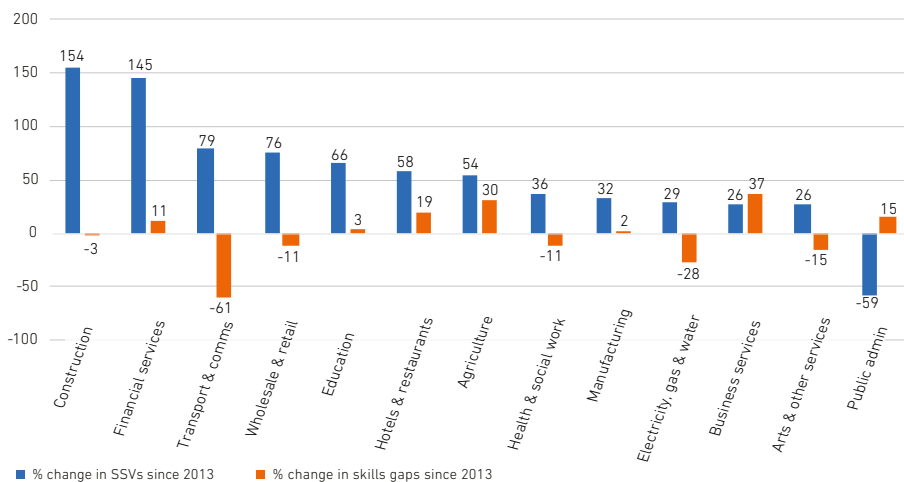
Both national and local factors matter to making a difference

The challenges for policy-makers at the national level are significant. Changes could be structural – for example the move to a higher-skilled economy, or growing use of technology. Alternatively, there may be cyclical changes affecting a sector or industry – such as those following the financial crisis, in construction and financial services (**Exhibit 3**).

But alongside macroeconomic factors, there are often highly localised and firm-specific dynamics. The speed, or nature, of change within the economy and individual businesses, and regional differences struggle to be reflected currently within skills policy development or delivery. A review of the evidence shows some wide divergence between different areas of the country.

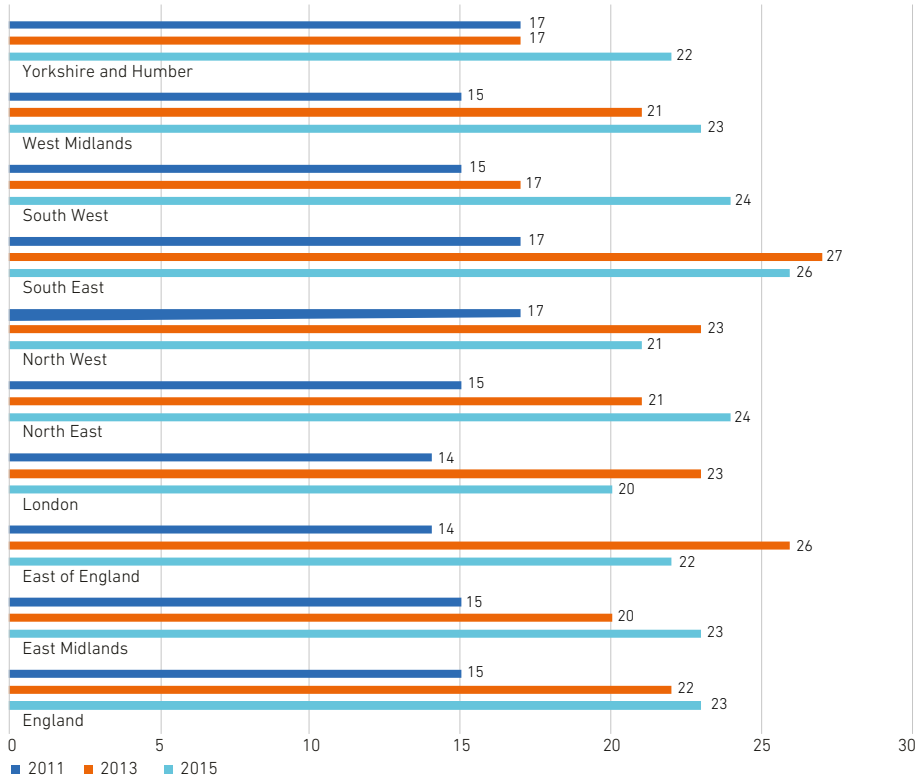
At national level, in England a fifth of companies have a vacancy. Of total vacancies 23%, 75,129 roles, are classed as skill-shortage vacancies (**Exhibit 4**). This proportion has grown since 2011 and varies slightly across England at a regional level. Within regions there can be significant variations in the incidence and density of skills shortages. For example, in the West Midlands, an overall 20% of vacancies were hard to fill due to skills shortages, this reached 37.4% in the Black Country LEP area compared to 18.2% in the Greater Birmingham and Solihull LEP and 15.9% in the Worcestershire LEP (**Exhibit 5**).

Exhibit 3 Changes in skills shortage vacancies and skills gaps



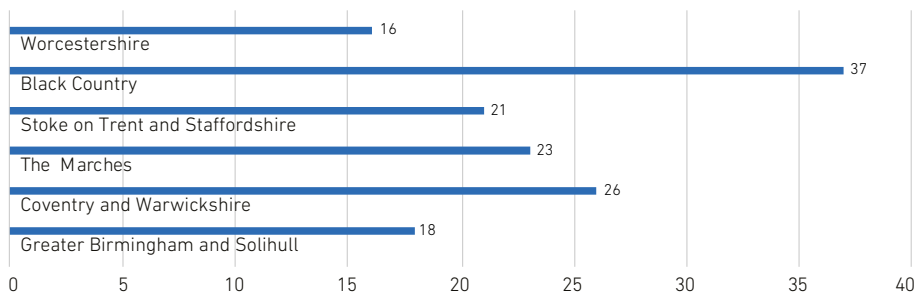
Source: UK employer skills survey 2015

Exhibit 4 – Skills shortage vacancy density by English region



Source: UK employer skills survey 2015¹⁴

Exhibit 5 – Skills shortage vacancy density within the West Midlands LEP area



Source: UK employer skills survey 2015¹⁵

CASE STUDY

MIRA TECHNOLOGY INSTITUTE

Situated on the MIRA Technology Park in the Midlands, the new MIRA Technology Institute – which is set to open in 2018 – is looking to deliver the high-tech skills needed for the automotive sector to thrive. With 35 major companies on site and hundreds of supply chain companies in the area, the new Technology Institute will be well placed to deliver the skills needs for the sector.

Driven by research and responding to the current and future skills requirement in the region, the Leicester and Leicestershire Enterprise Partnership is supporting the development of the MIRA Technology Institute in a number of ways, including through providing both funding and resource.

Working with three universities (Coventry, Loughborough and Leicester) and one FE college, the project lead, (North Warwickshire and South Leicestershire), the Institute will deliver industry-linked training and education across all levels. As well as providing the core skills needed for the sector locally and within the UK, the Institute aims to lead the way on the world stage in providing the cutting-edge skills the industry needs to thrive.

As fast evolving sector with high levels of technology use, many employers struggle to find the training that they need – particularly on a local basis – and as such the MIRA Technology Institute aims to become the 'one stop shop' for training needs.

Recognising the need for employees to upskill and retrain throughout their careers, the Technology Institute will support the existing workforce of the companies based on the MIRA Technology Park and beyond – helping them to progress their careers and to support the growth of the sector.

The core curriculum of the Institute is based on employer research, and is continuing to be shaped as more businesses get involved. Drawing on the expertise of both the employers engaged and the academic partners means that the centre will be closely aligned to the demands of the sector.

Key features:

- ✓ Long-term
- ✓ Data-led
- ✓ Targeted approach



CASE STUDY

ESSEX EMPLOYMENT AND SKILLS BOARD

In 2013, Essex County Council established the Essex Employment and Skills Board, covering Essex, Southend and Thurrock to bring employers, education institutions and employer bodies more closely together.

With employers at the heart of this model, their knowledge, experience and expertise is utilised to advise on decision making regarding funding and areas of priority across the region, with the support of Essex County Council.

Underpinning the work of the Board is the annually refreshed Evidence Base, which analyses the economic needs of the area – including details on skill levels, vacancy postings and job profiles. Providing up-to-date and accurate labour market intelligence, the Evidence Base is used to inform policy decisions and – crucially – it enables providers to better respond to the skills and training that employers need.

The direct impact of the Evidence Base is already clear – two Essex colleges have successfully used the data to secure LEP Capital funds to purchase specialist equipment, and build two state of the art training facilities linked to local employer need: The STEM Innovation Centre in Braintree and the Advanced Manufacturing & Engineering Centre in Harlow.

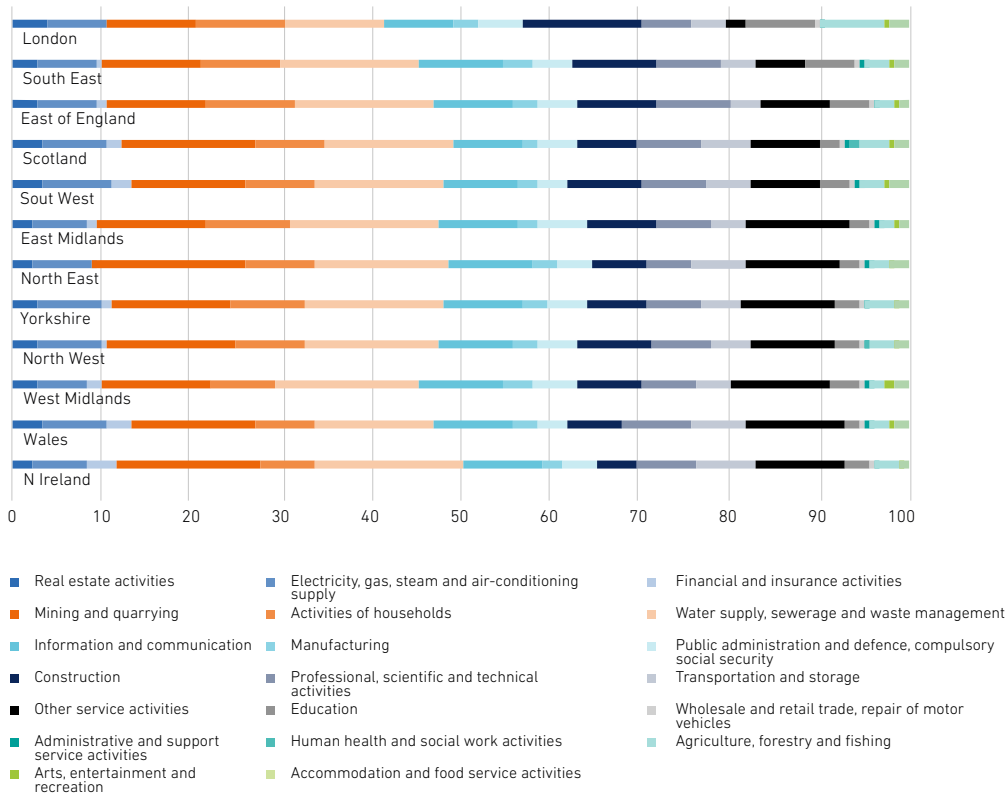
This is a clear demonstration of how the partnership approach, and the use of local intelligence can secure and improve opportunities for local residents, align provision to employer need and, ultimately, support economic growth.

Key Features:

- ✓ Data-led
- ✓ Long-term
- ✓ Collaborative

The driving factors in these trends are the companies located in an area, their business model and structure, and the specific job roles and skills needs they generate. Understanding the sectoral make-up of an area is vital to develop provision that meets demand. Within England, CBI research demonstrates that the mix of sectors does not differ significantly between regions.¹⁶ Some sectors may have a greater presence – for example, wholesale and retail in Yorkshire and the Humber or transportation in the East Midlands – but there is a spread across all regions. This suggests that differences in skills performance are driven by more than established sectoral shortages, such as those in Engineering.

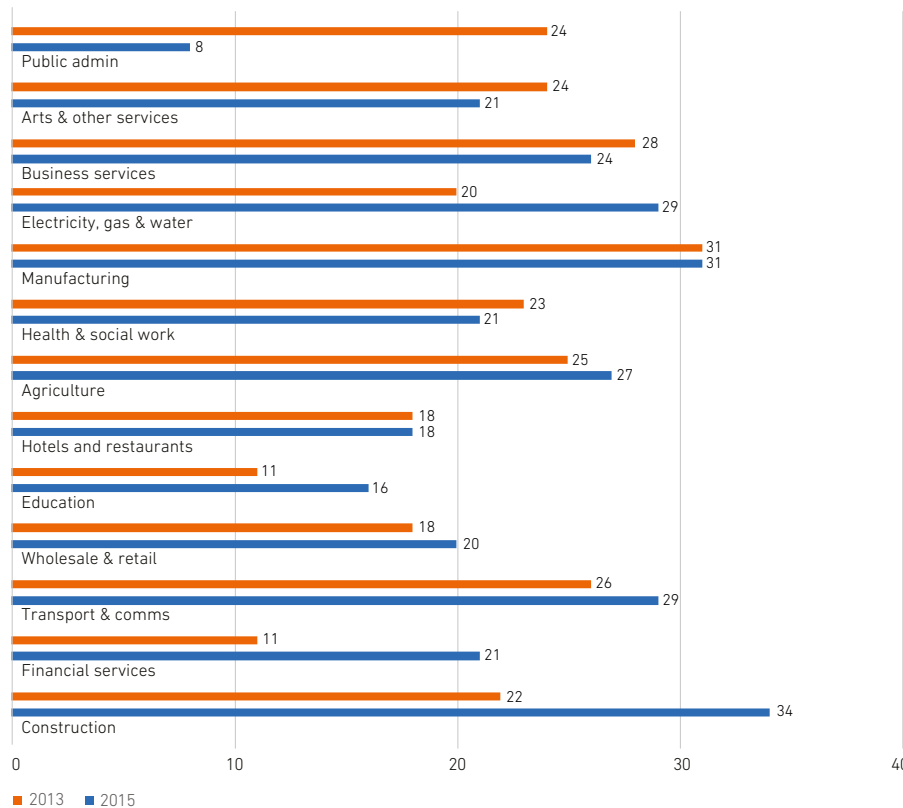
Exhibit 6 – Sector mix by employment level



CBI analysis

Nevertheless, within any sub-regional area the main driver of skills demand are the local businesses, so we see greater variation. Looking at this by sector demonstrates how each have their own challenges. In construction – a sector that is critical to economic growth in the coming years – 35% of vacancies were hard to fill because of skill-shortages. Given the many smaller firms in the sector, the challenge of addressing this is particularly acute (**Exhibit 7**).

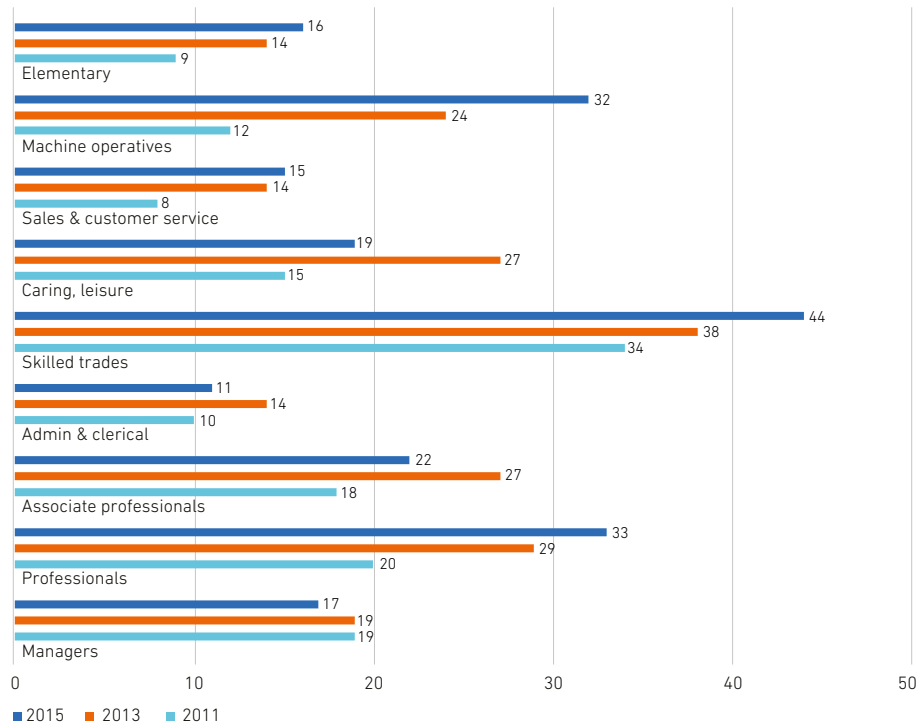
Exhibit 7 – Skills shortage vacancy density by sector



Source: UK employer skills survey 2015¹⁷

Underpinning different sectoral needs is the occupational make-up of individual businesses, as the skills required for certain roles – skilled trades, machine operatives and associate professionals in particular – are especially scarce, alongside professionals (**Exhibit 8**). The CBI has long said that skilled technicians are at the heart of the UK’s skills shortage across many sectors – and this is the evidence that shows this. It is our inability to effectively deliver enough people at this level (Levels 4-5) that is the primary skills constraint of growth, according to the many companies we talked to – and it can be no surprise that this is the sector of the labour market that is primarily served by our ever-changing technical education system.

Exhibit 8 – Skills shortage vacancy density by occupation



Source: UK employer skills survey 2015¹⁸

Another vital piece of regional economic geography is business density. Skills needs and the design of provision is impacted hugely by the number of businesses located in an area and their size. The vast majority of the total number of businesses in England are small or medium businesses¹⁹ but employment share is more evenly spread (59%) (Exhibit 9). A wide variation exists in England on number of companies and the business density in regions (Exhibit 10). London and the South East have the most private sector businesses (1m and 900,000 respectively) and North East has the least – at 147,000. London and the South East are significantly ahead, yet even stripping these out, the comparison between the East of England and North East on both number of businesses and density of firms is considerable.

The subtleties of these regional variations are not reflected in top-down national reforms – a single, national approach to skills is always likely to fall unevenly across areas. But local capacity constraints, the need for transferability of qualifications between areas and employers, and the need for scale means that a purely regional approach would also not be effective. A blend of enabling national policy supporting locally tailored investment will be most effective. This will allow for larger firms to have impact through their supply chains and things like sector deals, while also encouraging local clustering of SMEs to deliver skills – both within a single national framework.

Exhibit 9 Employment share by region and business size

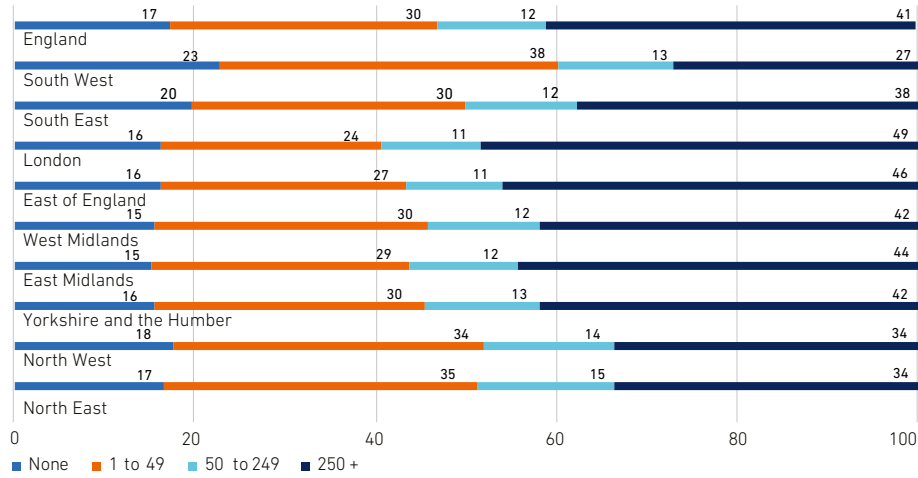
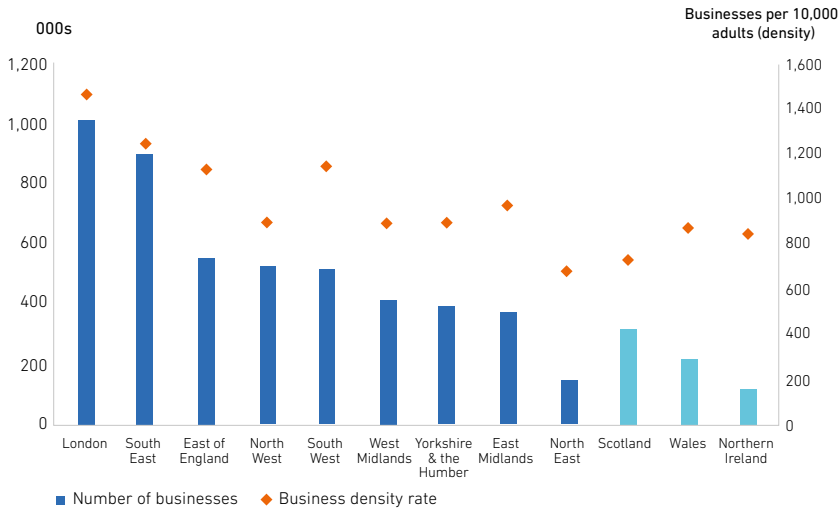


Exhibit 10 Number of businesses and business density in the private sector by English region, start of 2016



While the overall direction of England's skills reforms is positive – there are major challenges ahead



Skills demand derives from employers: their involvement in the system is essential

A robust national framework, with a range of quality routes for people to gain more and higher skills is the shared goal for the business community. The past six years in England has seen a positive shift in national skills policy towards greater employer engagement in the design of provision. New courses, standards and institutions have sprung up that have the capacity to be transformative. From apprenticeship standards to T-levels and University Technical Colleges, much has been achieved. Businesses who have become involved in these processes have been able to shape provision alongside providers, developing a more targeted skills strategy that is truly effective.

Nevertheless, the skills system in England is still primarily driven by government. The Apprenticeship Levy has reshaped what many businesses do on training – often in less than positive ways – and reforms to apprenticeship standards have occasionally been held up by government-imposed rules. Where there is a legitimate requirement to do this to protect quality, few businesses would have a problem. But too often, it seems that government commitment to employer leadership is fragile – there absolutely is a role for government as a market regulator on training – but they should not be in the business of designing provision. Where government intervenes in this way, and regularly creates a new programme or reforms an old one, there is a cost to their intervention. Firms become alienated from the system and the bar for involvement becomes higher. Our interviewees told us that a stable market, well-regulated by government is the key to success, as it makes the system attractive and investible for all businesses.

Quality technical education and growing apprenticeship numbers will help address long- and short-term skills issues...

Very significant and systemic national reform is currently underway within England's skills system. The Apprenticeship Levy system and Institute for Apprenticeships (IFATE) went live in April 2017, making the system employer-funded, and promising to make it employer-led. The intended purpose of the apprenticeship reforms is to increase apprentice numbers and expand the number of businesses using this training route – with the aim of addressing skills needs and low UK productivity.

 *Creating a vocational route of equivalent strength and value of A-levels is a long-held business priority – the scale of challenge in doing so, is considerable.* 

A second, systemic reform is also underway following the Sainsbury Panel's recommendations to improve technical education. This has been the catalyst for major redesign of post-16 technical education – an area of training that is economically significant but has often been neglected or mismanaged through reforms. The aim – to create a vocational route that is of equivalent strength and value as the academic A-level – is a long-held business priority. The scale of the challenge in doing so is considerable.

Responding to calls from business, as part of the levy reforms, the Institute for Apprenticeships was set-up to give businesses a voice in the system design – in particular, the creation of standards and some aspects of apprenticeship funding. The Institute will take on greater responsibility for the skills system in time as T-Levels are rolled out, and businesses welcome its unifying role. This is the key body at national level for vocational skills in England – so the Institute should be given the space to become an independent market regulator, setting a firm base for investment in skills as part of our industrial strategy. Part of its role should be ensuring that we do have an effective national skills strategy – with the Institute able to challenge government to ensure that their actions are aligned across all stages of skill development and focussed on outcomes, not just numbers.

...but to deliver a coherent, quality and employer-led system there are major challenges to be addressed

Any systemic change, of the complexity and size of that taking place in England's skills system, faces challenges. For national skills policy at present, the two major challenges are with the structural design of the levy system and the behavioural shift for business, government and providers that genuine employer leadership represents.

The Apprenticeship Levy is providing a live experiment to this effect, with vital lessons needing to be learned if the apprenticeship and wider training system is to succeed, as well as the reforms to technical education. The incentives within the apprenticeship levy do not yet support the best outcomes for business, apprentices and the economy – unaddressed this will be damaging, as was seen in falling numbers of apprenticeship starts since April 2017.

Improved understanding within government of the economics of business training decisions is urgently needed. The levy now underpins a major aspect of the national skills system but faces serious challenges if it is to work effectively for companies and learners. Greater commercial acumen is essential if the new technical system is to be set up for success, not face problems from the outset.

 *A robust national framework, with a range of quality routes for people to gain more and higher skills is the shared goal for the business community.* 



CHAPTER 2

Delivering a successful system is a collective challenge

A new approach is needed from all: business, government and providers

The scale and pace of economic change make this a critical juncture for England's skill system. Previous failed reforms demonstrate the cost of getting this wrong and the need for a new and different approach. Developing and delivering an effective skills system is a shared challenge where business, government and providers need to collaborate to develop practical and workable solutions.

If the current reforms are to be once-in-a-generation rather than the usual once-in-a-parliament change, the right blend of national and local level action is a must. Too many reforms in the past have left those responsible for delivering things on the ground hamstrung by decisions made in Whitehall. This time, things need to be different.

Encouragingly, many of the key building blocks of an effective system are already in place, as the previous chapter set out. If they are to be realised government ministers and officials need the confidence, and a team with the right commercial skills, to allow a market to develop that they regulate rather than control – giving flexibility to firms and providers to develop training that is truly effective. Alongside this, regional and local-level leaders, including Metro Mayors and LEPs and devolution deals have the potential to work within this market to build provision that changes people's lives and boosts local economies.

Structures and policies are part of the solution, but they must be complemented by behavioural changes – and so both are explored in this chapter.

Pockets of good practice demonstrate the direction for the right local and national approach

All too often, discussion of skills defaults to comparing England with other countries on performance – yet there are many notable examples already of what can be achieved here in England. Innovation in the design of provision can help local clusters develop that meet the needs of all firms and especially engage smaller and medium sized firms. Some case studies are set out at the back of this report, but a few key examples are:

- The Greater Manchester Skills and Employment Partnership, where employers, colleges and training providers, funding agencies and local authorities collaborate to ensure residents have the skills needed to meet the demands of employers

- Leeds City Region's Employment and Skills Plan incorporates a number of elements including provision of labour market information to shape provision, capital funding and youth employment programmes – alongside 'delivery agreements' where providers commit to using new metrics to improve their provision
- In the South West, the industry-supported Energy Skills Centre at Bridgwater and Taunton College, is helping to develop the skills needed to deliver the Hinkley Point C project
- The Tunnelling and Underground Construction Academy in London, was established in 2011 to meet the skills training needs of the Crossrail project and wider industry – and continues to deliver training as a college of advanced technology.

A genuinely successful skills system needs a nationwide framework that underpins locally developed and delivered training

The framework at a national level for England's skills system should start from the understanding that skills development is a market – employers need to hire skilled staff or invest in training for current staff, and will buy what makes sense for them. That will vary across sectors and firms – but the common theme is that better outcomes will be delivered where employers are informed consumers, working with colleges and private providers to shape provision.

The goal of national policy should be to establish an environment that encourages as many of these interactions to take place as possible, and for the outcome of them to be high quality training that meets both employer and learner needs – as measured by things like learner earnings progression and dropping numbers of skills shortage vacancies.

If this is the approach government should take, then the effect of structural incentives (such as the levy), clear quality criteria and robust regulatory mechanisms is where government focus should be – alongside stability of approach. Taken together, a focus on these areas will give the stability and consistency that firms are looking for, and should enable government to take a less prescriptive approach to what specific training is undertaken. One of those we spoke to used the example of a 'franchise' style model; where consistent national standards apply, with room for local creativity and specialism.

That is vital in order to recognise where national policy is best used and its limits, so that regional and local leaders can be given the flexibility and authority to deliver tailored provision. As the case studies in this report show, genuinely high-quality skills provision is developed and delivered at a local level through local clusters. However, for this to become established practice, the national framework needs to incentivise this and provide flexibility for companies of all sizes and sectors, as well as providers to collaborate.

England needs a national framework that is stable and investible – with improvements the current system could do this

The top priority that emerged during our research was for England to develop a stable and investible skills system. There is work to be done to make England's national skills market effective as a stable playing field for employers of all sizes, providers and learners – but no appetite to go back to the drawing board. The IFATE, apprenticeship reform and T-levels are steps in a positive direction, but the delivery record of skills reforms to date demonstrates the need for government to see them through with commercial thinking at the heart of their plan. Our shared aim should be to embed a collaborative and longer-term approach towards skills at national level through industrial strategy and through devolution and leadership at local level. This would create the conditions to foster investment by businesses, particularly smaller and medium firms.

While companies did not advocate a reversal of the recent reforms in our discussions, there were stark warnings about the inherent problems in the design and structure of the levy and training market and the risks if these are not addressed. In the case of the Apprenticeship Levy training market, national government mistook giving employers purchasing power as the creation of functioning market. In doing so, the government created a narrow intervention on the demand side, but without ensuring that the supply side was prepared, or an awareness of the perverse incentives the design created on the demand side.

The outcome of this is likely to be a system that creates provision – but without effective stewarding of the market by government, we may see provision drop – or growth in areas that have little long-term benefit to the learner. By contrast, a system based on robust quality controls and outcome measures like progression and salary potential could make a real difference and enable a less fearful approach to delivery. Ultimately, a key step would be the long-term evolution of the Apprenticeship Levy into a flexible skills levy, starting with greater ability for firms to pool and share their levy money to invest in local or sectoral clusters. With the right regulation, this would deliver a far more effective system at local level – while retaining the regulatory role of the IFATE to ensure quality.

The other benefit of this more flexible approach would be to drop the fixation on one form of provision, and replace it with a range of well-regulated choices that suit different firms. Currently, many businesses train via different routes from apprenticeships, so are unsure about what quality provision they can access in the system, or even how to establish an apprenticeship programme if one is suitable for their firm. This is especially the case amongst smaller and medium sized-firms. Companies are also not able to use price as a signal because it is not yet a signal of quality. Similarly, providers frequently work on the assumption that such companies are well-informed actors in the training market – when often they are not.

Incentives targeted at what's best for the long-term

Across business, government and providers there is a shared view of what England's skills system should deliver: high quality training that builds careers at any stage. To achieve this the incentives at national and local level, for business, providers and learners all need to drive in that direction.

RECOMMENDATIONS

CBI members feel that a national framework to foster a long-term and collaborative approach on skills would:

- **Align a long-term, joined-up skills strategy with the industrial strategy and commit to its stability and working with businesses on its design**
- **Avoid regular new initiatives that confuse and distract from the overall strategy – at national level, simplicity and focus is key**
- **Empower the Institute for Apprenticeships and Technical Education to deliver the strategy – using the approach of developing a well-regulated market. IFATE should independently monitor and report on the performance of the system in closing gaps**
- **Address perverse incentives in the levy system by moving towards giving employers the flexibility to spend their apprenticeship levy on any high quality training that addresses skills shortages and gaps**
- **Set up a pilot for apprenticeship levy pooling and sharing in at least four English regions – with LEPs and devolved authorities playing a supporting role in the development and delivery – to roll out a full system by 2020. This will help engage many more SMEs with the system**
- **Align skills accountability and quality measures to addressing skills gaps and shortages, targeted towards positive, long-term outcomes for learners – underpinned by data**
- **Collaboration should be encouraged by making the value of employer engagement much more prominent in the Ofsted – and where relevant QAA – framework, with a bigger impact on the overall judgement.**

CASE STUDY

BIRMINGHAM METROPOLITAN COLLEGE – PROFESSIONAL SERVICES ACADEMY

Identifying a growing need for skills in the professional services sector in the region, Birmingham Metropolitan College launched their Professional Services Academy in 2013 to deliver training for 16-19 year olds looking to pursue a career in these industries. With professional services identified by the LEP as a key growth sector, this institution aims to help meet the skills needs of the sector as it goes from strength to strength – opening up new routes for recruitment for a sector traditionally reliant on graduate talent.

Gaining the backing of a number of the leading firms in the sector across the financial, legal, accounting and business community, the college is able to offer students a range of benefits to help prepare them for their working lives.

Alongside a two-year course to gain key qualifications, students take part in commercially-linked workshops, work with mentors from the partner organisations, experience onsite visits to gain key insights, and have the chance to apply for high-quality work experience placements.

Key employers, including Deloitte, Deutsche Bank, KPMG, GVA, Gateley LLP, BNP Paribas Personal Finance Wesleyan and Lloyds work with the college to develop curriculum and to review it on a regular basis – ensuring it stays aligned with changing skills demands. The offer of the Professional Services Academy continues to evolve in line with the sector, reshaping provision in line with employer need.

The Academy works with the partnership base not only to develop the right training and apprenticeship programmes for the sector, but also to support the sector to spot young talent through the model to progress onto their apprenticeship programmes.

Employers in the region have welcomed the creation of the academy – and by developing a strong stakeholder engagement strategy, the college has been able to convert this support into partnerships enabling them to supply the skills the local labour market demands.

Key Features:

- ✓ Targeted approach
- ✓ Long-term
- ✓ Collaborative



CASE STUDY

ALIGNING PROVISION WITH NEEDS IN LEEDS CITY REGION

In July 2017, the West Yorkshire Combined Authority and Leeds City Region Enterprise Partnership announced details of a partnership with the region's colleges aimed at aligning provision to the needs of the Leeds City Region Economy – formalised through new 'Delivery Agreements' with each college.

By aligning the provision delivered through £56m adult education budget to local needs, these agreements will help ensure that learners in the region are getting the skills and training they need to succeed and progress in work, as well as helping to narrow the skills challenges faced in Leeds' major sectors of manufacturing and engineering, health and care, infrastructure and digital.

These agreements set out clear targets for each college in helping to address the skills challenges faced in the region, aligned to the Employment and Skills Plan and supporting the key sectors that have been identified. These will help ensure that the college is contributing to the achievements of the shared aspirations for the city region, and include targets on apprenticeship starts, higher level training, and employer relationships – as well as setting out the actions that each college will take to meet their goals.

Through the labour market data collated by the Local Enterprise Partnership the strengths of the region and challenges faced are clear, and this collaborative approach will help to ensure provision is aligned to meeting the needs of employers and helping the region to grow.

Key Features:

- ✓ Targeted approach
- ✓ Long-term
- ✓ Collaborative



Businesses are the solution – if government steps up, firms must do the same

People with the right skills are essential for any business. Yet too often the discussion about our “greatest asset” feels hollow to those charged with educating the future workforce – with engagement not as high as they would like from some firms, while others are blazing a trail. As we have already established that there may be long-standing reasons for this – including past underperformance or change in the skills system – but for any reform to be successful business must step up.

Companies need to view skills like they would any aspect of their supply chain – especially as it is likely to be the most important part of it, and the one most linked to raising productivity performance. Just as with other business processes, quality data, analysis, investment and relationships are essential and can bring real benefits, as our case studies and many others can show. Leadership in the line, as well as HR, is vital – and this is common to the best examples we found as we travelled around the country.

Our research with businesses found that many companies lack understanding of how the current skills system works. This limits their engagement and investment in it, as well as understanding of the role they could play. While the frequent changes which take place to skills policy and provision contribute to this, it is important to recognise the responsibility on business to be more active and engaged with the skills system.

There is a key role for providers and LEPs in addressing this. England’s skills system has been undergoing a shift to being more employer-led, and should be able to meet employers’ needs. As already set out, this direction of policy is a positive one – in response to business calls for a greater role in skills. Business’ commitment to skills must now be visible within companies. At individual business level this has to translate into changes in company behaviour – both internally and through external collaboration and engagement. The case studies in this report show how this can be done, through partnerships, working with other companies locally and collaborating with providers to design relevant training. While some companies across a range of sectors have made exemplary efforts many have not done enough.

Yet skills should be a focus from the boardroom down, not just a challenge for HR.

Companies need to take a long-term approach. This has often been hampered by perpetual change, but this cannot be used as an excuse if we can deliver a stable system with real local leadership on collaboration and investment.

Investment in training now needs to take a different form

The most effective skills provision is developed collaboratively. Bringing together the relevant businesses, providers and public sector representatives is the essential first step to addressing specific skills needs – at a local and national level. Whether it’s a sector deal or a devolution deal, expertise from industry provides the cutting-edge economic relevance, experienced providers tailor their offer and approaches according to the need. This is the approach Build UK and Collab Group have taken to develop the Bridge into Construction programme. National government as well as LEP representatives will have a role in driving change, and making the market work.

Engaging with providers, collaborating with other firms locally, or in a sector, and designing training with a provider needs to become the new normal for addressing skills needs. This will take a mindset shift at operational and strategic level.

Skills are not a simple input – they're a complex one. For business, the collective challenge is greater engagement with the system at every level. This could be driven by a local cluster as with the Cheshire Energy Hub or through a provider such as Bmet Professional Services Academy. These demonstrate how simply purchasing training or recruiting specific qualifications or cohorts is not sufficient. This now requires a different type of investment, which reflects the strategic importance of skills.

Collaboration doesn't happen automatically

Our research with businesses and providers demonstrated how essential collaboration is to delivering quality skills provision but for several reasons this is not yet consistent or systematic. Levels of engagement between businesses and providers varies and is often not focused on course or qualification design. The CBI/Pearson 2017 education and skills survey found 63% of respondents had links with colleges. These links are most frequently in order to provide careers advice and talks (67%) in comparison to curriculum development where just 30% of those who had links with colleges were involved in this kind of much more strategic activity.

Where employers used an external provider to deliver apprenticeship training, the Department for Education's employer perspectives survey found that just above half (55%) had at least some involvement in content design and tailoring. Interestingly, 33% of those who hadn't been involved in apprenticeship training design would have wanted to do so. Where employers use skills training to achieve a vocational qualification, just under half (47%) were involved in the content. And of those who had not been involved 22% of those who hadn't had any involvement in design would have wanted to. Reasons cited were lack of awareness that this was possible, uncooperative training providers and the level of time commitment needed for not engaging.

Providers, especially colleges, report that often they are not viewed as a 'first port of call' for businesses. In the instances where businesses and providers are collaborating, this is felt to be against – rather than with – the grain of the system. One provider described it as being perceived to be risky, as they could not be confident current incentives would recognise or reward this, despite the fact that it is an essential part of addressing our productivity challenge. A stable, investible national system would change this – but even now there are pockets of excellence that are showing the way, as our case studies show.

CASE STUDY

CHESHIRE ENERGY HUB GRADUATE PROGRAMME

Since 2014, employers in the power and energy sector in Cheshire have collaborated on a graduate development programme to harness the talent of the best graduates in the country – building on the advantage of the geographic clustering of the sector in the region.

Founded by three businesses operating in the same local area who were facing challenges in finding graduates with the skills needed in their organisations – EA Technology, C-Tech Innovation and URENCO Limited – the scheme has now grown to include a further 6 businesses: Capenhurst Nuclear Services, Encirc, Essar Oil UK, the National Nuclear Laboratory, Storenergy UK and SP Energy Networks.

This collaborative approach and exciting proposition enables businesses, who might have struggled otherwise, to attract high quality graduates – and ensure that talent is being kept within the Cheshire region.

Rotating placements between up to three of the employers engaged in the programme give graduates a breadth and diversity of experience in their development, helping them to understand the workings of businesses of different sizes and with different working environments. The graduates undertake technical training relevant to their specialism alongside business skills training in areas such as teamwork, commercial awareness, project management and leadership.

Key Features:

- ✓ Collaborative
- ✓ Targeted approach
- ✓ Investible

CASE STUDY

BUILD UK AND COLLAB GROUP'S 'BRIDGE INTO CONSTRUCTION PROGRAMME

Currently, at least one third of young people completing a construction further education (FE) course do not continue into employment within the industry. Young people find they do not have the experience or skills required for an apprenticeship – despite having studied in FE.

That's why Build UK and Collab Group designed a new, one year course that will give young people the training and skills needed in the industry, and help address employers' skills shortages.

To prevent any mismatch between teaching and what is required 'on-the-job' the training has developed with strong employer input and is a project-based teaching style. This allows students to understand the lifecycle of a construction project – from the tendering stage, through to design, construction and post-construction. A strong foundation for a future career in the industry, students visit live construction and gain a relevant health and safety qualification.

Launched in October 2017, the course is currently being piloted by two colleges – Sheffield and South Thames – with Berkeley Group supporting the course by offering work experience to students. The course will be rolled out to ten other colleges from September 2018 with a number of major employers expressing an interest to be a part of the programme.

Key Features:

- ✓ Data-led
- ✓ Targeted approach
- ✓ Investible

Innovative local leadership on skills is essential

To meet the needs of local businesses and learners skills provision should be designed from the grassroots. Variations in company sector and size within a region, coupled with the range of providers available demonstrates the importance of taking a local approach to this. Leadership from business, providers and local stakeholders is critical to achieving this – and could be delivered through a Metro Mayor, LEP or skills partnership organisation like the Essex Employment and Skills Board. Equally firms might cluster around a local college or private provider where no strong local framework exists.

The aim should be to deliver high-quality local skills provision. Our research identifies that this should be:

- **Collaborative:** designed by employers, providers and government or regional stakeholders – with clearly defined responsibilities for all involved
- **Data-led:** informed by up-to-date local labour market information
- **Targeted:** focused on specific skills needs, tailored to industry, geography and demographic trends
- **Long-term:** takes account of wider economic environment and can adapt
- **Investible:** design and delivery that attracts and encourages investment demonstrates value for money and time/resource investment

Regionally led and designed activity should support and incentivise provision which adheres to those principles. With the development of Devolution Deals and the adult education budget being devolved by 2018 commercial skills within local structures and organisations will be vital for local plans and provision to avoid some of the national pitfalls.

RECOMMENDATIONS

The structures will vary, but the principles of good provision should be consistent, and require action from all involved:

- LEPs, Mayors and skills partnerships should act as vehicles to bring together providers and businesses around the local skills plan. They should collect and disseminate local labour market information and support relationship building
- A clear analysis of gaps in provision should be developed by businesses, providers and LEPs working together – as well as a plan to address them
- Firms should commit to engaging with skills at senior level – and committing staff time to ensuring provision meets their needs
- Providers need to be willing to act in the best interests of local learners and businesses, even when the system may encourage other forms of provision more – in time national reform should address this
- As far as possible, building local clusters should be encouraged, enabling providers to better meet the needs of the smallest businesses alongside larger ones
- Local investment should take into account sectoral strengths and relevant links to sector deals via the industrial strategy – especially at higher skill levels.

Skills at any level – low, intermediate or high – are valuable in the skills market, to companies and an individual, when they are relevant to occupations or roles available. Rising qualification numbers have not resulted in a better functioning skills market; demonstrating that supply and demand signals do not yet work effectively.

Decades of skills reforms have taken a top-down approach, that has often left those on the ground – business, providers and learners – constrained by decisions from Whitehall. Poor incentives and regular change have topped the development of effective, relevant training and obscured the difference between valuable and less valuable provision. This can change. The building blocks of an effective skills system are emerging, so now behaviour tone and approach from all must shift.

At a national level the framework of funding, incentives and regulation must foster a long-term and collaborative approach on skills. The CBI's recommendations to achieve this:

- Align a long-term, joined-up skills strategy with the industrial strategy and commit to its stability and working with business on its design.
- Avoid regular new initiatives that confuse and distract from the overall strategy – at national level, simplicity and focus is key.
- Empower the Institute for Apprenticeships and Technical Education to deliver the strategy – using the approach of developing a well-regulated market. IFATE should independently monitor and report on the performance of the system in closing gaps.
- Address perverse incentives in the levy system by moving towards giving employers the flexibility to spend their apprenticeship levy on any high quality training that addresses skills shortages and gaps.
- Set up a pilot for apprenticeship levy pooling and sharing in at least four English regions – with LEPs and devolved authorities playing a supporting role in the development and delivery – to roll out a full system by 2020. This will help engage many more SMEs with the system.
- Align skills accountability and quality measures to addressing skills gaps and shortages, targeted towards positive, long-term outcomes for learners – underpinned by data.
- Collaboration should be encouraged by making the value of employer engagement much more prominent in the Ofsted – and where relevant QAA – framework, with a bigger impact on the overall judgement.

Meeting skills through high-quality provision requires leadership and innovation at local level. Exactly who is involved or how partnerships are created will vary, but the principles of good provision are consistent: collaboration, data-led approach, targeting, a long-term perspective and attractive for investment. The CBI's recommendations to achieve this at a local level:

- **LEPs, Mayors and skills partnerships should act as vehicles to bring together providers and businesses around the local skills plan. They should collect and disseminate local labour market information and support relationship building.**
- **A clear analysis of gaps in provision should be developed by businesses providers and LEPs working together – as well as a plan to address them.**
- **Firms should commit to engaging with skills at senior level – and committing staff time to ensuring provision meets their needs.**
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- **As far as possible, building local clusters should be encouraged, enabling providers to better meet the needs of the smallest businesses alongside larger ones.**
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