

The 2010 Report

Ambition 2020: **World Class Skills** **and Jobs for the UK**

Key Findings and Implications for Action

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Key findings

INTRODUCTION

This report is our **second** annual assessment of how well we are doing and what we need to do to achieve our ambition to be World Class by 2020. It aims to provide a sound evidence base and an agenda on which future success can be built.

Last year we published the first *Ambition 2020* report. This assessed the UK's progress towards our world class ambition of being one of the top 8 countries in the world for skills, jobs and productivity. We found that we were just short of being world class in terms of employment (where we were ranked 10th); and productivity (where we were ranked 11th). Regarding skills, despite significant progress in recent years, we were ranked 12th, 18th and 17th on high level, intermediate and low level skills respectively. Based on this analysis we concluded that by 2020 our relative position would barely have improved and whilst we would be closer to being world class on higher level skills, our position on intermediate and low level skills would actually deteriorate.

We concluded by developing a framework in which to understand the skills and employment agenda and which could be used to develop a coherent and comprehensive skills and employment policy which would make progress towards our 2020 world class ambitions more achievable. We again follow this framework, which leads us to discuss (i) the 'prosperity' agenda (how we are faring on economic performance, employment and productivity); (ii) current skills levels and progress and prospects for the future; (iii) other measures of skill development, in particular measures of training activity and participation in both individuals and employers; (iv) the extent of skills mismatch between the skills available and the skills required; (v) employer demand for skills; and (vi) the role of public policy in enhancing employment and skills.

PROSPERITY, JOBS AND SKILLS

The UK remains the 6th largest economy in the world and the 4th largest in the OECD (behind the USA, Japan and Germany). It also remains regionally concentrated with London and the South East accounting for a third of GDP.

The World Economic Forum Global Competitiveness Report ranks the UK as the 13th most competitive in the world (down one place from 2008/09, itself down three places from 2007/08).

Prosperity ultimately depends on (i) the number of people in work (itself a function of the '**employment rate**' and the number of people in the potential workforce); and (ii) the value that they produce when in work – the '**productivity rate**'. The most recent data show that the UK remains 10th in terms of the former and 11th in terms of the latter – just outside the top quartile of OECD countries and **unchanged** from the previous year.

Employment and productivity rates also vary considerably across the UK nations and regions with a strong correlation between the two, except in London where productivity levels are high but employment levels relatively low. Trends in **productivity growth** tend to exacerbate existing productivity differences with London and the South East outperforming other **regions**, though Scotland has, over time, narrowed its 'productivity gap' and Wales, West Midlands and Yorkshire and the Humber positions have deteriorated.

Recent trends in the **employment rate** across the UK nations and regions during the recession, show above average declines in the South West and Scotland, with the least declines in the East Midlands and London.

In terms of **inequality**, the UK position (24th least equal in the OECD) has not changed since last year but we highlight in the report the key findings of the 'Hills' report on economic inequality within the UK which draws attention to its significance, including in terms of jobs and skills.

PROGRESS TOWARDS AMBITION 2020

Recent trends in qualification attainment

Last year, we drew attention to the significant progress that had been made in recent years in raising the **skill levels of the UK workforce**. The numbers achieving high level qualifications increased over the decade by more than 3 million or 44% whilst, at the other end of the spectrum, the numbers without any qualifications declined by more than 1.5 million or 26%.

Since then, **these trends have continued** and, over the last two years (2007/09), for example, the proportion without qualifications of at least Level 2, has declined from 30% to 28% and the proportion qualified to at least Level 4, has increased from 30% to 32%.

It is important to recognise that **skill levels vary considerably by socio economic group and/or characteristic** e.g. by age, disability, ethnicity, employment status and occupation. In particular, we also show that geographical variations are substantial with skill levels in the South East, Scotland and London being particularly high and being relatively low in, for example, Yorkshire, the West Midlands and Northern Ireland.

Table 1

The UK's current and forecast international position

Skill Level	Current Rank 2007	Ambition	Expected rank 2020
Low Skills	19	Top 8	20
Intermediate Skills	21	Top 8	21
High Skills	12	Top 8	11

The UK's changing international position

When it comes to estimating our **likely future progress** towards the 2020 ambition, our models project the UK's international ranking for low, intermediate and high level skills based on trends in the OECD countries' adults stock of skills from 1998–2007. These show that the UK is unlikely to improve its relative international position between now and 2020 and that:

- we estimate we will not reach our world class skills ambition in respect of low and intermediate level skills: indeed, we will remain in the bottom half of OECD countries at these levels;
- with regard to high level skills, we expect to almost achieve our world class skills ambition, and we expect to be ranked 11th by 2020¹.

Table 1 below summaries the results.

¹ These forecasts use LFS data which have not been adjusted to take account of the revised methodology for estimating the level of adult educational attainment in England

PROJECTED DOMESTIC POSITION

An important element of the 2020 Ambition is striving for 95% of UK adults to have both functional numeracy and literacy skills and, accordingly, our models also project the UK's position for the basic skills of numeracy and literacy. These projections indicate that 93% of UK adults will be functionally literate by 2020 and 89% will be functionally numerate. We will not, therefore, achieve these basic skills ambitions.

Our projections for those aged 19–64 indicate that (see table 2):

- the **Level 4+ ambition will be slightly exceeded** at 42% compared to the aspiration of 40%;
- there will be **significant under-achievement of the Level 3 Ambition**, with 19% qualified at this level compared with the aspiration of 28%;
- there will be **slight under-attainment of the Level 2 Ambition**, at 20% compared to the desired 22%; and
- there will be insufficient improvement in the lower levels of qualifications, with a forecast of 19% still with no or low levels of qualifications, compared to the 10% aimed for.

Investment in skill development

It is clear that the attainment of our ambitions will only be met if **responsibility for their attainment is to be shared between employers, individuals and Government**. In the current climate of tight public sector finances this is, perhaps, ever more important.

Research by NIACE suggests that expenditure on adult skills development accounted for some £55 billion in 2007/08, of which the public sector accounted for 47%, private sector employers 30%, individuals 17% and the remaining 7% being contributed by the voluntary and community sectors.

Examining patterns in employer participation in learning and training and allows us to see that:

- **the proportion of employers providing training continues to increase over time.** In England, for example, from 64% in 2004 to 67% in 2007 and, despite the recession, 68% in 2009. In Scotland 65% of employers provide some form of training to their staff, as do 78% in Northern Ireland. The data from Wales is not quite comparable, but here we see that 58% of employers provide off-the-job training;

Table 2

The qualifications of the UK workforce 2008–2020: estimated numbers, 000s

	2008		2020 Ambition		Projected Attainments		Last Year		Gap	
	%	n	%	n	%	n	%		%	n
Level 4+	31	11,179	40	15,717	42	16,399	41		2% points above ambition	682,000 above ambition
Level 3	20	7,082	28	11,002	19	7,599	17		9% points below ambition	3,403,000 below ambition
Level 2	20	7,201	22	8,644	20	7,723	19		2% points below ambition	921,000 below ambition
Below Level 2	17	6,130	6	2,358	14	5,428	16		8% points below ambition	3,070,000 below ambition
No qualifications	12	4,083	4	1,572	5	2,144	7		1% point below ambition	572,000 below ambition

Source: Labour Force Survey and UK Commission forecasting work

- in terms of the volume of training, we look at this in terms of the number of days and the amount spent. In England, for example, **over a year every worker on average receives 4.7 days training**. However, the proportion of the workforce who obtain employer training has declined between 2007–09: 70% (of those who provided training) do so for more than half their staff and nearly two fifths (38%) trained 90% or more of their workforce over the last year. These figures compare to 74% and 44% respectively in 2007
- total annual employer expenditure on training in England (around £39 billion) in real terms, declined between 2007–09 by about 5%. It nonetheless equates to £1,700 per employee in the workforce (though this figure does include the labour costs of those trained).

So the training picture amongst employers is mixed: whilst the proportion of employers offering some training has held up during the recession, the proportion of trainees it is being offered to and the amount being spent has decreased. The recession has clearly impacted, perhaps leading to a focusing on training effort. And throughout all this we continue to see major variations in the level of spend by organisation size (the larger the employer, the more likely they are to provide training); and by sector (training is most prevalent in the public sector and least in manufacturing and agriculture).

With regard to individual participation in training, the level of participation may be declining: indeed some research indicates that across the workforce as a whole there has been a decline in average levels of job-related training and levels have now returned to 1993 levels. But whatever the level of training, the wide variations in training based on personal characteristics and (more importantly) previous qualification attainment level and occupation level remain.

Comparisons with other EU countries can be made with reference to 16 core indicators and, in particular, the 5 EU 2010 ‘benchmarks’. Using the former wider basket, the UK is one of the top 3 countries in respect of 3 of them i.e Lifelong Learning Participation, Investment in Education and Training and Higher Educational Attainment. Moreover, the UK is in the top performing

countries on the basis of the average of the 5 ‘2010’ benchmarks (and in the top 7 countries on 2 of them, i.e Lifelong Learning Participation and Maths/Science and Technology Graduates). It is positioned less well on: the proportion of early school leavers; the proportion of those completing upper secondary education; and on reading/literacy. On the 2020 EU benchmarks the UK performs better than the EU average on the majority of these indicators.

Such a relatively strong performance (compared to the OECD comparisons) not only reflects the specific measures used but also (i) that there are included in the EU comparisons countries which are not OECD members and who are not generally considered highly advanced economies appropriate for ‘world class’ comparisons; and (ii) there are 10 OECD members who are not EU countries yet many are highly advanced economies that are appropriate for ‘world class’ comparisons.

However, **we still have concerns that the training being delivered is unevenly and unequally distributed**. Low skilled individuals, those in lower status occupations and managers receive less training, together with employees in small firms and those in a number of important sectors in the economy. There are also questions about the duration of training and whether this is of sufficient quality. In the context, therefore, of achieving the 2020 World Class Skills Ambition, this raises questions about the current adequacy of training and skills investment and what more can or should be done to ensure that individuals and business make a long term commitment to continually invest in skills.

MIS-MATCHES BETWEEN JOBS AND SKILLS

The issue of mis-match – the extent to which the people and their skills are matched (or not) to the jobs that employers need – is vital to our understanding of the efficient operation of the labour market. Mis-matches can be at ‘either end’ of a scale – at the one end with employers not being able to recruit to jobs that they need filling (skill shortage vacancies) or that the workforce that they have is not completely skilled (skill gaps), to the other end, where people cannot find jobs or the jobs that they are doing leaves them under-employed.

Overall, skills shortages are relatively small, affecting only a minority of employers. Whilst this in part reflects the recessionary conditions, skill shortages were also relatively low at the peak of the boom. Current skill gaps are more common and impact on about one in five employers.

Increasing the number of higher skilled people only makes sense if the jobs are available for them to fill and employers are able to make use of these skills. Following almost 15 years of jobs growth and relatively low unemployment, economic conditions, and jobs prospects in particular, have deteriorated sharply in recent months. When these conditions are placed in a longer run context, however, we see that not only has there been a sustained growth in jobs, over 3 million in the last 10 years, but that these jobs have, on the whole, been more highly skilled than in the past. The proportion of jobs requiring higher levels of qualifications has been rising whilst the proportion requiring low or no qualifications has been declining, a trend reflected in the substantial growth of ‘white collar’ professional, associate professional, technical and managerial jobs and the decline of ‘blue collar’ jobs in both manufacturing and services.

This trend has serious implications for those with low or no qualifications and those who are unemployed or inactive. Those not in work are likely to be at both ‘ends’ of the age spectrum, particularly the young; they are likely to be low skilled; they are more likely to have a disability; and they are more likely to be from an ethnic minority group.

Making headway on the skills and jobs agenda during the recession will be difficult. Some of the jobs lost will not return; some skills will become obsolete and many industries and occupations will experience restructuring. There will be future growth; it will be slower than in the past but growth will come with an expected 2 million new jobs between now and 2020 and most of these will demand higher skills than in the past. And, because of retirements and other labour market changes, a further 11 million job opportunities are likely to become available.

So we must prepare for the jobs of the future and ensure that people have the skills necessary to access the opportunities that will become available post-recession so that employers will be able to recruit workers with the skills necessary for success.

RAISING EMPLOYER AMBITION

We have reviewed the evidence concerning employer demand for skills. This suggests that over time the intensity of skills has been gradually growing and it is expected to continue to grow in the future.

It seems clear that there is a significant positive relationship between product market strategy and the skill levels of the workforce in the UK, with the higher the product market strategy the higher the average skill level required from the workforce. Product market strategies drive skill use, and it therefore follows that to increase skills used in the workplace, there is a need to drive companies up the product market value chain.

If the skills that are being embedded in the workforce are not to be wasted, it is important that they are effectively used in the workplace. High Performance Working (HPW) offers an important potential vehicle for inspiring organisations to act to enhance their competitiveness and performance. At the moment, take-up of high performance practices is low and there are questions about the level of skills demand compared to other countries.

Both development of high value-added product market strategies and skills utilisation will be affected crucially by the ability of our management and leaders. There remains a

concern that management levels and deployment is relatively poor compared to our main competitors and this must therefore remain a key priority for action.

SKILLS AND EMPLOYMENT POLICY

After a significant period of economic growth, the UK is emerging from the financial crisis and the deepest international downturn for 80 years. In this context the imperative is to focus on the means to transform and re-balance the economy to secure economic recovery, renewal and growth, as well as managing increasingly scarce public resources more efficiently and effectively to secure greater benefits.

We believe that there are three underlying issues to be addressed:

- **individual aspiration** – despite our progress in skills attainment, too few adults still possess the skills needed to succeed in tomorrow’s labour market or the motivation, confidence and opportunity to gain them. We need to upskill our older workers who are already in the labour market, which raises issues about future modes of provision. Over 80% of our 2020 workforce is now already in work. We must fix the ‘stock’ of adult skills as well as the ‘flow’ of young people into the labour market.
- **employer demand** – whilst our leading employers are amongst the best in the world, there are questions about the balance of our economy as a whole. Relative to other industrialised nations, we have too few businesses in high skill, high value added industries, too few high performance workplaces are creating too few high skilled jobs. Compared to our ambition, we simply don’t have sufficient employer demand for skills. We need more and better jobs which can only come from more and better businesses.
- **responsive provision** – We have important strengths in our skills and employment systems in the UK but, there are significant improvements needed too. In particular, providers need to be responsive to ongoing developments in the labour market so that provision and learners skill acquisition is well aligned to labour market needs and varying consumers’ (employers and learners)

demands. This raises questions about the forces driving the system, whether it is too complex and sufficiently empowers customers, the pattern of future demand, its performance and scope for quality improvement.

The implications for action which stem from these issues are that we need to:

- **support businesses to create more jobs and more high skilled jobs**, combining higher levels of employment with higher levels of productivity. Achieving the World Class Ambitions depends on developing a competitive, high value added and high quality business environment and economy. To secure this, businesses must have the **ambition** to be a force to be reckoned with in the traditional industries of today and the emerging industries of tomorrow. This calls for world class **business leadership** to enable the UK to compete with the best in the world;
- **invest in the right skills:** there is a need to ensure that skills acquired bring real, sustainable benefits to the individuals concerned. This means focusing on those that are most in demand and generate the most value to the individual, employers, the economy and society;
- **use information and incentives on the levers for raising investment in skills.** Whilst we do not think that we can rely on detailed, centrally driven planning of skills investment, there is an important role for government to provide high quality information reinforced (if necessary) by targeted incentives to give market signals;
- **achieve more and better for less** by empowering customers, focusing on outcomes and placing greater trust in providers in the delivery of skills and job services.

The UK Commission will shortly provide evidence around policy incentives for individuals and employers through its ‘More for Less’ project. This will provide our advice about where scarce resources should be prioritised to add the greatest value and, in particular to leverage the greatest investment from individuals and employers.

The UK Commission aims to raise UK prosperity and opportunity by improving employment and skills.

Our ambition is to benefit employers, individuals and government by advising how improved employment and skills systems can help the UK become a world-class leader in productivity, in employment and in having a fair and inclusive society: all this in the context of a fast-changing global economy.

Because employers, whether in private business or the public sector, have prime responsibility for the achievement of greater productivity, the UK Commission will strengthen the employer voice and provide greater employer influence over the employment and skills systems.

Having developed a view of what's needed, the UK Commission will provide independent advice to the highest levels in government to help achieve those improvements through strategic policy development, evidence-based analysis and the exchange of good practice.

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This document (and the main report) is available at **www.ukces.org.uk** as a downloadable pdf.

The UK Commission's strategy can be found in full in our *Five Year Strategic Plan 2009–2014*, published alongside this document. Details of current projects and activities are provided in our current *Business Plan 2009–2010*, also available on our website.

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