

What is the role of skills and the skills system in promoting productivity growth in areas of the country that are poorer performing economically?

Skills and Productivity Board

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“Regional differences typically have deep roots and are long-lasting. They emerge in an evolutionary fashion due to the complex interplay of various factors acting in a self-reinforcing cycle – transport, education, skills, innovation, housing, civic and community infrastructure. For well-performing places, this is a virtuous circle. For left-behind places, it is a vicious one.

Past experience suggests that closing these differences, or reversing those vicious circles, takes time. There is rarely a simple or singular policy means of doing so. But the evidence also clearly suggests that reversing the cycle of stagnation is possible providing policy measures are large-scale, well-directed and long-lived. Historically in the UK, none of these conditions has been satisfied”.

Andy Haldane, in foreword to Zmek and Jones, 2020.

Introduction

Concern about imbalances in economic performance between different parts of England and the UK more widely are nothing new. As Martin et al (2015: 3) observe, spatial divergences in productivity have been a long-standing concern across the UK (witness the Barlow Commission that reported in 1940), and post-war governments sought to reduce these disparities in a variety of ways. After the recession of the early 1980s and the decline of coal, steel and manufacturing, some urban areas were perceived to be experiencing a sharp deterioration in their economies, with problems of long-term unemployment highly visible. The large and widening inequalities in economic performance between different parts of the country, alongside a growing awareness (in part fostered by OECD and European statistics) that many cities in the UK were being outperformed by overseas rivals, made boosting the economic performance of urban centres, such as some seaside towns, an increasingly important policy issue (McInroy and Jackson, 2015).

These issues were given an added urgency by the fact that between 1995 and 2013 spatial imbalances as measured by regional shares of gross domestic product (GDP) rose faster in the UK than in France, Spain, Italy, Germany and, at state level, the USA (Martin et al, 2015: 3). McCann (2020) brings the picture up to date and shows how, relative to other developed nations, the UK stands out as having exceptionally large and persistent variations in productivity across what are, by the standards of many countries, relatively small units of spatial disaggregation (Coyle et al, 2019). Moreover, geographic inequality in disposable income has increased since December 2019 (Caddick and Stirling, 2021).

Unfortunately, the evidence available suggests that, at least to date, UK efforts aimed at spatially re-balancing the economy have failed to deliver a significant effect, and that “over the past 120 years, whilst the gap between the most and least productive areas has varied, the relative ranking across the UK has been largely unchanged” (HMG, 2022: 26). Indeed, on some measures at least there has been growing inequality in rates of economic growth and employment both across and within regions and local areas (Berry and Hay, 2014; Moran and Williams, 2015; SPERI, 2015, Centre for Cities, 2015; Jones, 2019; McCann, 2020). That re-balancing has not proved to be simple or quick to accomplish should come as no surprise. Although easy to specify as an objective at a rhetorical level, the reality is that:

Local areas start with an inherited pattern of land use and a resource base and institutions that were tailored to another era. The legacy of the past can weigh heavily, and adjusting to new futures is difficult. In the last thirty years the challenge in many areas has been to bring about economic, physical and social renewal and reorientation against a backdrop where much of their existing stock of floorspace, human and physical capital was configured to produce goods that

either no longer exist or are now made elsewhere in the world.
(Martin et al, 2015: 13)

Despite the challenges, and despite the fact that some level of disparity in local economic performance is inevitable, trying to reduce regional and intra-regional inequalities in productivity, earnings, and on various measures of wellbeing are important to both voters and to government. The government's levelling-up agenda is one that has a broad resonance with politicians and citizens across the political spectrum. Duffy et al (2021) reporting on the findings from a large-scale survey of public attitudes towards inequality in Britain note that, "the one issue on which there is significant agreement that cuts across political lines is place-based inequality" (2021: 5) and observe that as a result the levelling-up agenda "very much fits with the public's own priorities almost regardless of background" (2021: 5).

This policy agenda is reflected in the third question which the then-Secretary of State set the Skills and Productivity Board (SPB) to address, namely: 'How can skills and the skills system promote productivity growth in areas of the country that are poorer performing economically?' The paper that follows seeks to provide some initial answers.

Aims of this paper

In the context of the levelling up agenda, the government will need to consider the appropriate balance between national and local policy setting, and how to respond within the design and architecture of educational systems and quasi-markets in England.

The aims of this paper are as follows:

- To identify the main lessons and limitations from existing knowledge – to what extent can it explain the extent and causes of spatial variations in productivity and the role that skills play within these variations?
- To provide an overview of what current research can tell us about the role and potential of education and training interventions to contribute to the government's levelling up agenda and to reducing spatial disparities in productivity.
- To provide a selective overview of a sample of existing local skills initiatives and institutions, and from this offer some pointers about possible future lines of policy development and institution building.
- To pose a range of questions about where national skills policy could go next in relation to the agenda around levelling up productivity.

Or, to put it another way, in the context of an agenda on levelling up productivity does a one-size-fits-all approach to policy still work, and if in some instances it does not, what follows by way of a response within the design and architecture of educational systems and quasi-markets in England?

This paper does not seek to provide detailed answers to all these questions, or try to cover every topic and body of evidence in detail. The overall goal is to stimulate discussion and thinking on some of the major issues, and to highlight what we already know – and do not.

Current Knowledge and Research

Limitations

It is important at the outset to be aware of the limitations that surround this exercise. What follows is at best a partial overview. This is partly due to constraints on time and research resources, but it also reflects several large and fundamental gaps in our knowledge.

No consensus on what research tells us

The first and most fundamental limitation is that there is no broad consensus within the academic research on many aspects of the UK's 'productivity puzzle', and in some instances (for example the reasons underlying the massive variations in productivity between localities) the basic causes of the problem are either unknown or remain open to speculation (for useful overviews of the debates, see Dolphin and Hatfield, 2015; McCann, 2020; Zymek and Jones, 2020; H M Government, 2022). A significant part of the problem is that different academic disciplines (economics, regional development, human resource management/industrial relations, innovation, strategic management) frame the research questions and interrogate the data from radically different theoretical and conceptual starting points, and most academic inquiry is designed and conducted inside disciplinary boxes between which interchange is often extremely limited or simply non-existent (Grimshaw and Miozza, 2021). Hopefully, the Economic and Social Research Council's (ESRC) new Productivity Institute will deliver greater integration of research effort and findings from which the SPB and the wider policy community can benefit – see Grimshaw and Miozza, 2021 for an initial statement of intent from the human capital strand of the Institute's programme of work, and Westwood and Pabst, 2021 for the institutional strand.

It is also the case that within the field of skills research there is no agreement within either the relevant research or policy communities about the fundamental nature of the relationship between skills and productivity (at any spatial level or economic level – firm, sector, economy, town, city, city region or state). If we accept a degree of expositional over-simplification, essentially there are two schools of thought.

School 1 believes that there is a relatively simple, direct, positive linear relationship between increasing the stock of human capital in any given nation state/sector/locality/workforce (usually as proxied by qualification achievement) and improved productivity outcomes. Thus, an increase in levels of skill x can be expected to generate an increase in productivity of y over temporal period z . Moreover, it is argued that increases in the supply of skills will, over time, create an increased demand for skills from employers as firms upgrade their productive and product market strategies in response to a more qualified and skilled workforce – in general terms what H M Treasury

once dubbed the 'supply-push' effect (HMT, 2002). This analytical approach has been at the heart of and acted as the driving force for much of the UK government's skills policy over the last 40 years (for a critical overview of this model, see Lauder, Brown and Cheung, 2020), and in terms of the levelling up agenda it still has its adherents (see, for example, the Centre for Cities publication *So you want to level up?* [Swinney, 2021]).

School 2, to which the author of this review subscribes, believes that skills are an important enabler of economic growth and that there is a relationship between improving human capital/skills and a range of economic and social performance indicators, but that unfortunately this relationship is much more complex, conditional and patchy than adherents of School 1 often assume. As a result, for policies based around increased skills to yield the best results they need to be combined with other factors/inputs/policy frames, such as the intensity of R&D activity, investment in plant and equipment and forms of work organisation and job design that can maximise the discretionary space for people to use their enhanced skills and capabilities. In other words, more skills are necessary but not sufficient to deliver improved economic performance – see Keep, Mayhew and Payne, 2006; Grugulis and Stoyanova, 2011; Zymek and Jones, 2020; Grimshaw and Miozza, 2021). The business improvement organisation Be the Business (2021) argue that, based on findings from a McKinsey's study conducted for BtB, that there are five interlocking factors that together produce high productivity organisations: management and leadership; technology adoption; training, development and human resources policies and practices; operational efficiency; and innovation and ideas. The Treasury's *Build Back Better: A Plan for Growth* (2021) underlines the fact that the UK's record on some of these complementary factors, such as investment in technology, has been poor for a long period and that major improvements are required (see Oliveira-Cunha et al, 2021 for a comprehensive overview of the evidence on UK investment in skills, R&D and innovation, and capital equipment).

The government's recent white paper on levelling up (HMG, 2022) follows this line of argument and endorses the notion that there are a set of mutually-interlocking 'capitals' that act as the drivers of spatial inequality, of which skills forms but one:

1. Physical capital (infrastructure, plant and machinery and housing)
2. Human capital (the skills, health and experience of the workforce)
3. Intangible capital (innovation, patents and ideas)
4. Financial capital (the resources supporting the funding of companies according to the white paper, but also arguably the capital that is available to support public policy interventions)
5. Social capital (the strength of communities, relationships and levels of trust)
6. Institutional capital (local leadership, capacity and capability)

As the government notes: "The engine of regional growth is a six-cylinder one" (HMG, 2022: 57). Figure 1.62 in the white paper offers a concise representation of how some

places can become caught in vicious cycles due to inter-related deficiencies in different forms of these capitals (HMG, 2022: 87), and the white paper's authors conclude that:

The six capitals are inextricably linked as part of a complex, adaptive economic ecosystem. Indeed, it is interdependence among the capitals that generates the forces the agglomeration, as strength in one capital cascades to the others in a cumulative, amplifying fashion.

(HMG, 2022: 88)

It is also worth underlining the fact that both schools of thought admit that improving skill levels can only address part of the UK's productivity gap with overseas rivals, or indeed the productivity gaps between different localities within the UK. The figure that is often quoted in policy documents is that as much as one fifth of our productivity gap with overseas competitors is down to relative deficiencies in skills, and the other four fifths is due to other causes (HMT, 2021).

Over time, School 1 has lost ground to School 2. In part, because some countries that have invested more heavily in skills/qualifications (e.g. Scotland) have not witnessed the predicted economic gains (the Scottish workforce is better qualified than the English workforce, but its overall level of productivity per hour worked remains lower). And partly because there has been a shift in analytical stance by bodies such as the OECD that has favoured a more nuanced interpretation of the role of skills and other complementary factors in promoting productivity growth and economic success (Keep, 2017).

It is also the case that over time the results of evaluations of specific national government programmes have showed smaller or patchier impacts on productivity. Policies that have tried to use the supply push effect to influence employer demand for skills indicate that the effects are often much smaller and patchier than anticipated, and policies aimed at changing employer behaviour appear to require a sustained effort over relatively long periods of time (see Tu et al, 2016, Keep, 2015 & 2019). As a result, the observation that simply because skills have been created at public expense does not mean that they will be automatically deployed to maximum productive effect in the workplace has been recognised by at least some policy makers – although the full implications of this insight have been slow to gain much traction on UK policy development.

These developments mean that at present the dominant research and international policy perspective argues for an approach to productivity enhancement that incorporates skills within a wider package of interventions – rather than seeing it as the 'silver bullet' that can on its own solve the policy challenge. To a considerable extent, the analytical framing adopted by the government's white paper on levelling up (HMG, 2022) follows this approach. As noted above, it sees skills or human capital as one of six inter-connected forms of capital that determine local prosperity, and it positions education and skills as within a medium-term policy response that is structured around a framework that embraces 12 'missions' (living standards, research and development, transport

infrastructure, digital connectivity, education, skills, health, well-being, pride in place, housing, crime, local leadership).

Education and training research has limited focus sub-national levels

A second major problem or limitation with the extant research is that English policy-led education and skills research has until relatively recently not been very interested in exploring demand side skills issues at levels below the whole economy/nation. This is mainly because policy has focused on skills supply via national reforms, and the unit of analysis has therefor usually been whole-nation or in some instances sectoral. There has been significant work on the pattern of provision on the supply side (educational participation and achievement rates in all types of education and training) at local authority, Mayoral Combined Authority (MCA) and city region levels, but this has relatively rarely been aligned with a detailed analysis of local skills demand and how the two interact (see Hodgson and Spours, 2013 for a rare example of looking at both sides of the equation and what it can tell us).

As a result of a predominantly national research focus, some of the data that we possess is not granular enough to shed as much light as is needed on problems when we try to look at sectors, sub-sectors, types of firm or indeed specific localities. In essence, much of the research data are useful for determining the general scale of the problem across various measures, but are insufficient to allow us to arrive at a clear understanding of what is driving or shaping these outcomes or how best external agencies might go about trying to change them for the better and this is critical in order to design appropriate policy responses (McCann, 2020).

More fundamentally, there is a relative paucity of work on the contribution and impacts of E&T on levelling up local economic performance. In part, this reflects the reality that for the last 30 years or so the role, funding, and powers of local government and of wider local institutions and actors in relation to skills policy in England has often been waning not waxing. Within skills policy, localities have not been the primary focus for policy design or delivery. 'Nationalisation' and de-localisation of decision making has been the underlying trend and norm, leading to the promulgation of relatively homogeneous national designs, programmes, policies and funding systems (Pring, 2012; Keep, 2018; Westwood, Sensier and Pike, 2021).

Where the government has pursued devolution to deal with issues to do with skills, employment and economic regeneration and business support (for example, the Training and Enterprise Councils in the 1990s, see Jones, 1999), it has not always done so in a considered and balanced way. The skills element of this 'devolution' often meant local delivery of national targets, programmes and priorities, and relatively limited power or discretion available to local actors within the formal (nationally defined) education and training system. For example, in terms of educational funding, the turn towards affording more attention to place-based policies and to limited elements of devolution has only

taken place in the last few years and is partial and piecemeal in nature. Moreover, governance and accountability regimes in education generally focus on the wishes and concerns of national government and its agencies.

It is also the case that both the policy and institutional landscape has been highly unstable (Goodwin, Jones and Jones, 2012 & 2017; Fairburn and Pugh, 2010; Jones, 1999; Pike et al, 2015 & 2018, Zymek and Jones, 2020; Westwood, Sensier and Pike, 2021). As the Institute for Government observed in their report *All Change* (Norris and Adam, 2017), “regional governance has been subject to endless tinkering and change” (2017: 11), as in parallel so too have been skills and economic development policies, and the government’s white paper on levelling up admits that spatial policy has “been characterised by endemic policy churn” (HMG, 2022: 109).

To try and simplify what has happened in regional economic governance since the 1920s, the overall story is that fashion has oscillated between awarding power and agency to larger and then back to smaller spatial gradations over time (see Jones, 2019: diagram on page 30; and also Figure 2.1 in HMG, 2022: 107)). Thus, under the Conservative administrations of Thatcher and Major we witnessed the creation of the local Training and Enterprise Councils (TECs), which were abolished by the Blair government and replaced by a smaller number of much larger Regional Development Agencies (RDAs) and by the national Learning and Skills Council (LSC) and its 47 Local Learning and Skills Councils (LLSCs) – see Keep, 2002, Coffield et al, 2005 and 2008. The arrival of the Coalition government saw the demise of the RDAs and their replacement by a greater number (39) of much smaller Local Enterprise Partnerships (LEPs). As Jones (2019) notes, the LEPs bear more than a passing resemblance to the earlier TECs.

By contrast, the latest policy fashion, as reflected in HMT’s (2021) *Build Back Better: Plan for Growth* and in the white paper on levelling up (HMG, 2022) appears to envisage a primary policy focus on city regions (in most instances larger than a single LEP) within each of which the aim is to create, “at least one globally competitive city acting as hotbeds of innovation and hubs of high value activity” (HMT, 2021: 26). This new model in part reflects the growing acceptance by government of economic theories around agglomeration – which argue that the key to local economic success is the scale and critical mass engendered thereby of the lead city in a ‘region’ (see HMG, 2022 for an exposition of this view).

Skills research has lagged behind the changes in this shifting structure of local bodies, and this in turn mirrors a more general decline in the last decade in the volume of research on the institutional aspects of English E&T policy. In particular, there has been a notable lack of work on the broader skills landscape (i.e. anything that is not to do with schools and higher education). As far as can be ascertained there has been no detailed analysis of the role of the Education and Skills Funding Agency (ESFA), a limited volume on the skills aspects of the work of the Local Enterprise Partnerships (LEPs), little substantive work on the skills policy formation and delivery activities of the Mayoral

Combined Authorities (MCAs), and nothing of any detail on the emergence and functioning of the various local FE college groupings and consortia that have appeared in some parts of the country. The overall operation of contemporary local skills systems/ecosystems is also very weakly researched (for an isolated example, see Green et al's (2017a) very useful analysis of the scene in the Black Country).

The most important absence is that of an over-arching government-sponsored evaluation of the devolution of the Adult Education Budget (AEB) to the Mayoral Combined Authorities (MCAs) which means that we have no data on how the largest substantive element of educational funding and policy devolution is developing and performing, what structural and process issues it is throwing up and how these are being addressed, or what economic effects the devolved AEB might be generating. This is a major gap in our knowledge, particularly if devolution of the AEB is now to be extended to other localities, and it is one that as yet academic research appears to be doing little to fill. The overall import of this situation is that if the next stage of levelling up policy means a closer focus on developing local skills interventions, the knowledge base does not provide us with much detailed understanding of 'what works'.

What does 'local' mean?

In the UK, localism is currently a popular policy concept, but one of its central problems is that different commentators and interest groups choose, for entirely rational reasons, to conceive of and define 'the local' and localism in different ways. There is thus no single, commonly agreed model or definition of what local is, or of how best to draw the boundaries for individual local units of decision-making. As noted above, the focus for national government's approach to 'localism' has shifted over time, and one person's locality is, for another person, simply a minor subset of their larger model of a locality or region. As the Centre for Urban and Regional Development Studies (CURDS) puts it, a key issue is, 'where one place stops and the next starts' (CURDS, 2015).

There is a vast literature generated by economic geographers, and regional economic development and governance specialists concerning the appropriate spatial scale(s) at which policy interventions across a number of policy headings/areas could or should be pitched and their governance and oversight located (see, for an overview of this topic, Jones, 2019). There are points of relevance to the work of the SPB within this research, perhaps the most important of which is that disparities in economic performance occur over quite small geographical distances. Thus in Greater Manchester the employment and earnings prospects of someone living in Trafford are very different (and much better on average) than those of someone living in Bury or Oldham (Coyle et al, 2019; New Economy, 2016). Research on relative spatial disadvantage repeatedly reminds us that deprivation often reflects micro-geographies and that wealth is no more likely to trickle across than it is down (see Zymek and Jones, 2020 for the example of one London borough; and HMG, 2022:26-28 for similar overviews of disparities across individual wards within Middlesbrough, and Kensington and Chelsea).

In recent times, the most popular model has been that of the city region, but the prime minister's speech on levelling up and the government's white paper on levelling up (HMG, 2022) reflected a new-found interest in counties as a focus – and there are many other ways of defining and viewing locality, not least in terms of geographic areas that are smaller in scale, but have a common identity forged through economic under-performance (for example, ex-mining communities, seaside towns, smaller cities in less prosperous regions of the country, etc.) (see Martin et al, 2015; ATCM/IED/RICS/RTPI, 2015; Blond and Morrin, 2015; Centre for Cities, 2014; Commission for Underperforming Towns and Cities, 2015; Dell, 2021). The under-performance of rural areas provides another potential boundary-setting frame (Department for Environment, Food and Rural Affairs, 2015).

This issue is not simply one for researchers. Policy makers are also confronted with the challenge of establishing coherent spatial boundaries for the institutions that can deliver different elements of the devolution and levelling up agendas. Thus, in terms of skills devolution, we have Mayoral Combined Authorities (MCAs) with boundaries that reflect aggregations of units of local government, and we are now promised a set of county deals (HMG, 2022), but overlaying these local government boundaries there are also Local Enterprise Partnerships (LEPs) which are typically but not always contiguous with local authority boundaries, and we now have a new model of skills delivery – the Local Skills Improvement Plans (LSIPs). For LSIPs trailblazers (pilot running in 2021-22), local employer representative bodies (to date Chambers but other groupings are possible) were encouraged to establish the spatial unit for activity most conducive to developing a credible LSIP. For the planned national rollout of LSIPs, the DfE has now stated the intention for LSIPs to mirror the geographical boundaries of existing Combined and Mayoral Combined Authorities including the Greater London Authority, and to align with the geographies of further devolution deals in the long-term.

A moment of significant uncertainty

Finally, policy on levelling up, skills and the next stages of devolution are being framed at a moment when the future shape and direction of the labour market, nationally and across a range of spatial units, is subject to considerable levels of uncertainty. This is because the structure of work and employment is being impacted by the still-evolving effects of Brexit and resultant changes in patterns of migrant labour; the boost delivered to home and hybrid working by the pandemic and its implications for commuting and for patterns of residence and work location; and the evolving impacts of artificial intelligence, digitalisation and automation on occupational structures and future skill needs.

Having outlined where there are gaps in our knowledge and understanding, the next section reviews the key messages that can be distilled from what is available by way of research and analysis.

Key Messages from the Extant Research

The following messages illustrate the scale of the challenge of shifting seriously disadvantaged and less productive localities onto an upward path. The persistence of spatial inequalities in economic performance despite multiple policy interventions speaks to the structurally embedded nature of the underlying causes of the divergent economic fortunes of different localities, suggesting that any future attempts to reduce divergence will require substantial efforts over extended periods of time. ‘Silver bullets’ and overnight cures are not available.

Place really matters for social and economic outcomes

In the UK more than in some other developed countries, differences between places on relatively small gradations of spatial scale really matters for social and economic outcomes (McCann, 2020, HMG, 2022). Given that for many years the key focus for skills policy has been national level discussions and thinking, often based on aggregate figures for the entire country (England or the UK), these differences between localities have often been masked or have existed only in the background of skills policy thinking. The levelling up agenda is intended to foreground spatial inequalities and to address significant, and in many instances growing place-based problems regarding, for example, wages, educational outcomes, employment rates, housing quality, physical and mental health and life expectancy.

The structure of the local economy and its local labour market have profound impacts on individual life chances (see below for a more detailed discussion of this) and this points to the dangers inherent in using aggregate national level data to represent and understand what is happening in the labour and skills markets in different parts of England. The job opportunities and consequent skills demands that occur in central London are very different from those in Grimsby, yet most policy design has hitherto been conducted at a high level of spatial aggregation and has often sought to treat England as a ‘unitary authority’ (Keep, 2002 and 2018; Westwood and Pabst, 2021). Where elements of choice and flexibility exist within national systems they have been given to individual providers rather than to elected and representative local bodies.

Addressing the levelling up agenda carries with it an implicit requirement to start to think locally. This includes framing policy interventions within specific local contexts in order to address local needs, and recognising that even within relatively small geographical units (e.g. as noted above a single combined authority like Greater Manchester), economic performance, stocks of skills and participation in E&T can vary widely (see Lupton and Unwin, 2018; Coyle et al, 2019; Greater Manchester Independent Inequalities Commission, 2021). The government’s levelling up white paper admits that “geographical disparities across the UK are hyper local” (HMG, 2022: 26).

Skills are part of the answer, but only a part

As previously outlined, there are many different schools of thought about what causes spatial inequalities in economic outcomes and what, if anything, might best be done to address them. Martin et al (2015) offer an excellent overview of these debates. Perhaps the key point to emerge from such reviews is that skills are just one part, albeit an important one, of the overall explanatory narrative. For example, research indicates that there appear to be linkages between a city region's governance systems and capability and that city region's economic performance (Ahrend and Schumann, 2014; McCann, 2020; Jong et al, 2021). The overall conclusion reached by much of the research is that: "the most successful cities in Europe have more substantial powers and resources and operate within a much more decentralised national system than is the case with English cities" (BPF/NLP/APUDG, 2014: 22). Plainly, if greater devolution of power to local levels is part of the answer, there remain questions about constructing a coherent package of powers and responsibilities to devolve around skills.

There are also cautionary examples of attempts to use re- and upskilling to drive local economic regeneration that have failed. One from America that is frequently cited by Baroness Wolf is the Janesville story (see Goldstein, 2017), where a Wisconsin town whose car plant closed subsequently found that a major skills-led package of regeneration measures failed to produce the intended regenerative economic and social outcomes.

Why might it be the case that skills are part rather than the whole of the answer? The sections that follow explore this question in some depth, as it is an important issue when thinking about the focus and institutional forms that might be required to enable skills to play a useful role within a package of interventions designed to improve local economic performance.

Business strategy and absorptive capacity

Business may not have the capacity to utilise new skills in their workforce – or even appreciate the potential business improvements from a higher-skilled workforce. The Industrial Strategy Council's final report on skills (Lyons, Taylor and Green, 2020) observed that:

...the 2017 ESS (Employers Skill Survey) revealed that the majority of employers state that the main reason they do not invest in training is that staff do not require training.... Such responses might be explained more fundamentally by the incidence of low-skill and low-productivity firms which contributes to a lack of demand for training. This has important consequences for intra- and inter-regional inequality and social mobility.
(2020: 15-16)

As the Cabinet Office Performance and Innovation Unit's project on workforce development noted as long ago as 2001 (Cabinet Office PIU, 2001a & 2001b) skill is a derived demand – derived from business need. Unless policy can change or influence the underlying level of need, upskilling on its own may produce limited and potentially sub-optimal effects (see Keep, Mayhew and Payne, 2006 for a review of the research evidence on this). This means that in order to transform economic performance in many firms, policy needs to influence businesses' product market strategies, product or service specification, and management practices such as work organisation and job design (Sung and Ashton, 2015).

To borrow a concept from innovation literature, in order for skills to improve productivity firms need to have the 'absorptive capacity' (Cohen and Levinthal, 1990) to be able to mobilise and deploy new and better workforce skills to productive effect. In the UK, this will not always be the case. We have a 'long tail' of poorly performing, low productivity organisations, some of which may be trapped in a form of path dependency (Haldane, 2018). The scale of the problem of a lack of absorptive capacity within the long tail should not be underestimated.

For example, findings from a J P Morgan Foundation-funded project conducted in association with the Chartered Institute of Personnel and Development (CIPD) indicated that many smaller employers lack the capacity to manage the employment relationship (such as the recruitment and selection process) in ways conducive to organisational efficiency or even compliance with the law. The project's aim was to offer free human resource management/personnel management consultancy support to small and medium-sized enterprises (SMEs) in three areas (Glasgow, Hackney and Stoke-on-Trent), with the ultimate objective of developing employers' capacity so that they could take on young apprentices. Unfortunately, in the majority of cases all the resource was consumed simply enabling the firms to become legally compliant employers – so deficient was their understanding and practice of employment relations (Atkinson et al, 2017). This pilot scheme is continuing under CIPD auspices. The findings reported above suggest that the management training for SMEs announced in HMT's *Build Back Better* (the Help to Grow Management, and Help to Grow Digital schemes) will be important in helping drive improvements (Atkinson, Lupton and Crowley, 2017).

Skills, low pay and job quality – a key focus for local interventions

A second reason why simply supplying more skills or boosting local educational attainment on their own may not engender the desired results in terms of individual labour market outcomes within disadvantaged localities is provided by research undertaken by the Social Mobility Commission (Carnerio et al, 2020). This looked at the role of place in the employment and wage outcomes of all state-educated males born between 1986 and 1988 and it concluded that:

...it is a story of local areas side by side that have vastly different outcomes for disadvantaged sons growing up there. And crucially, this is not a problem that equalising education alone can fix.....We find compelling evidence that the greatest inequality is driven by factors outside education, and in these areas it is far harder to escape deprivation.
(Carnerio et al, 2020: 3)

The research demonstrated that the structure of local labour market opportunities is crucial in determining whether individuals seeking to escape poverty succeed, and that this varies very considerably across relatively small geographical areas. The over-arching conclusion is that:

To equalise opportunities for those from the most and least deprived backgrounds, reducing education inequalities continues to be crucial. But in order to 'level up' between the places that have the widest income disparities for advantaged and disadvantaged young people, it is labour market interventions that will make the difference. (Carnerio et al, 2020: 39)

US research points to the same conclusion (Rodrick and Sabel, 2019). Disadvantaged areas tend to have large volumes of low-paid, dead-end, low skilled employment and this impacts upon both individual and community well-being. Creating more good jobs is central to helping less successful localities to improve their relative performance and outcomes, or, as Rodrik and Sabel put it, "producing good jobs is a source of positive externality for society" (2019: 5). They go on to argue that what is required is a fusion of local business support and improvement services (what are often called extension services in the USA – see also Bartik, 2018), economic development, and skills and active labour market programmes adapted to fit local circumstances and needs. As Miller-Adams et al observe, "The goal of more and better jobs for residents can best be achieved by making high quality investments in both local skills and business growth, not just one or the other" (2019: 1).

In the UK, efforts to level up less prosperous communities, especially within MCAs has often been spearheaded by efforts to reduce the incidence of low paid employment and rhetoric around 'fair work'. This is a topic that has attracted attention by various charities, particularly the Joseph Rowntree Foundation (see Thompson et al, 2016), and in some combined authorities, interventions have been undertaken or are under way to test what can be achieved, within which skills figure as a component. Much of the work has highlighted the importance of local economic and industrial strategies that can address the prevalence of low paid work, often in sectors and firms that perform weakly on productivity levels and growth. This employment is usually clustered in a few sectors: retail and wholesale, hospitality and catering, sport and leisure, food and drink manufacturing, textiles, and health and social care (D'Arcy, Gardiner and Rahman, 2012; Lloyd, Mason and Mayhew, 2008; Green et al, 2017b).

Promoting change is not easy, as many businesses have learned to live with a low pay, low skills and low productivity model and to make it work, at least in terms of delivering profitability (Lloyd, Mason and Mayhew, 2008, Green et al, 2018). As Forth and Rincon Aznar observe, “there was general recognition that investment in skills development is likely to lead to productivity gains, but where firms have a low-wage/low-skills business model, they may have little incentive to invest in skills as a route to improved productivity” (2018: 2). In this regard it is interesting to note that the Industrial Strategy Council in its final annual report (ISC, 2021) called for the creation of a labour market strategy at UK level in order to provide a broader context for skills and workplace innovation policies.

LEPs that are part of an MCA have noticed the issue of low-wage/low-skills business models. For example, Greater Manchester Combined Authority (GMCA - which incorporates the LEP) and Leeds city region which has developed a package of interventions linking skills to promoting different pathways to in-work progression (see Sissons, 2020). GMCA (2016) argued for a productivity strategy for low-wage sectors, nested within which will be a need to boost skill levels as employers’ demand for skills alters. The key planks in this broader productivity strategy are very similar to those advocated by Green (2016) from her overview of thinking on how to attempt to disrupt low skills equilibria (innovation support, technology adoption support, business improvement – see below for further discussion of such equilibria). In terms of skills, the focus is on boosting apprenticeship volumes, and establishing degree apprenticeships for the biggest low-wage sectors.

In localities sitting outside the MCAs, their Local Enterprise Partnerships (LEPs) have not been gifted funding to pursue any kind of significant experiments around skills, low pay and productivity. In many instances, they have struggled to deliver their currently fairly limited remit on skills, particularly in relation to wider attempts at bolstering economic development (see Atkinson, Lupton and Crowley, 2017; Payne, 2018; Romaniuk et al, 2020).

In addition, as Forth and Rincon Aznar (2018) observe, efforts to boost productivity levels, particularly in communities and localities where low pay sectors of the economy account for a large slice of employment will be very hard to achieve unless they address issues such as capital intensity and work organisation. Lloyd, Mason and Mayhew (2008) concur and point to the importance of improving the way skills are utilised in the workplace. Greater Manchester Combined Authority echoes this, noting:

There are low levels of productivity and innovation and in GM over £1bn is spent on in-work tax credits, demonstrating that many GM residents are working in low-paid jobs often with poor career progression. As well as up-skilling individual residents this needs to be addressed through better skills utilisation and a move to higher value-added activities in some businesses.

GMCA, 2016: 7.

Skills utilisation

Skills utilisation is thus another line of policy development that has become popular within the OECD (see OECD, 2017). Reconfiguring work organisation and job design to make the best use of the skills the workforce possesses has risen in prominence as an issue in skills policy, not least within OECD policy work (Froy, 2013). As the OECD's Centre for Entrepreneurship, SMEs, Regions and Cities note: "from a place-based perspective, a focus on better using skills is especially important for labour markets with sub-optimal productivity performance", (Centre for Entrepreneurship, SMEs, Regions and Cities, 2020: 9).

For overviews of the topic and examples of policy interventions at firm level, see Buchanan et al, 2010; Skills Australia, 2012; and Keep, 2016. Atkinson, Lupton and Crowley, 2017 explore how LEPs and other local actors could address this agenda, and the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (2020) report explores what could be done at UK city region level (using the example of Leeds).

High Skills Ecosystems, cluster policy and smart specialisation

There is a natural focus on the role of HE institutions can play in local economic regeneration and growth, and the white paper on levelling up (HMG, 2022) re-affirms the importance that the UK government attaches to economic clusters and the role of HE institutions therein. This is not just a UK phenomenon - a considerable proportion of the focus on local economic growth in the developed world has come to rest on the importance of industrial clusters, agglomeration, and a variety of spillover effects that result from having successful industries and sectors located in particular local concentrations. For a concise overview of sectoral agglomeration, clusters and cluster theory, see Zymek and Jones, 2020. This literature merges into that on science and innovation policy, and on the role of higher education institutions in catalysing local high skill ecosystems (HSEs) (see Finegold, 1999 for the original formulation of an HSE in relation to the emergence of high-tech clusters in California).

This is a vast body of work, and no attempt is made to try and cover it in any detail here. A useful example of an international overview and set of case studies comes in Taylor, Sampson and Romaniuk's 2021 OECD LEED paper which covers urban regeneration and cluster policies in Estonia, San Antonio (Texas), the Lille Region in France, and the Ruhr in Germany. Their main findings are that success rests on a set of mutually reinforcing factors, including strong local economic governance, collaboration between partners, high levels of long-term investment, sector-focused long-term economic development strategies (in some instances focused upon high tech or digital industry clusters), coupled with infrastructure investments, within which education and skills is closely integrated and plays an important supportive role. Policies also need to be followed consistently over time, and there are real challenges in sharing the gains across the whole population – pockets of disadvantage are persistent.

In terms of the UK the key points to note are that we have been reasonably successful in using research and skills generated in HEIs to create viable high-tech clusters, but the bulk of these have emerged in the 'Golden Triangle' located between Oxford, London and Cambridge rather than in more disadvantaged parts of the country. For a broader set of examples, see Universities Alliance, 2016 and for an in-depth probe into one local cluster a recent OECD report (OECD, 2021) offers a useful snapshot of high-tech developments in Cambridgeshire and Peterborough. The white paper on levelling up commits the government to higher innovation investment beyond the 'Golden Triangle' (HMG, 2022).

Within EU policy and in some policy circles in the US, regional development strategy thinking in relation to innovation and clusters has come to be dominated, at least in part, by smart industrial policy and smart specialisation theories (see Radošević et al, 2017; Radošević, 2017; and Wessner and Howell, 2017 for overviews). Smart specialisation centres on a sectors-based approach to local industrial policy with the aim of helping policy makers identify and target interventions towards those sectors and industries where the locality in question has characteristics and resources that might provide the basis for building a strategic advantage. In many instances the existence of local university or other research facilities will figure, as will the supply of skilled labour and access to venture capital. For examples of the policy in operation in particular parts of the world and some of the challenges that it faces, see Asheim, Grillitsch and Trippl, 2017 (Scandinavia); Kroll, 2017 (Germany); and Tsipouri, 2017 (Southern Europe).

Although smart specialisation policies are sometimes targeted at localities and regions that have been experiencing relative economic decline, their ability to deliver change and spillover benefits to the most disadvantaged places and people often appear limited and there is a danger that what forms is a 'tech bubble' focused on a relatively limited space/place that exists more or less in isolation from the wider local economy and labour market (see Wessner and Howell, 2017). The experiences of the author of this review on the Skills Board/Skills Advisory Panel (SAP) of Oxfordshire Local Enterprise Partnership (LEP) bear out this problem. Oxfordshire is home to some extremely successfully global innovation hubs/clusters in areas like life sciences, space technology, and fusion reactors based around research expertise and highly qualified staff at Oxford University, and the Harwell and Culham laboratories/research campuses. A new cluster around quantum computing is currently emerging. These have made Oxfordshire one of the most economically successful localities at aggregate level outside of London but have done very little to help 'level up' the left behind and deprived areas in the city of Oxford or some of those parts of the county more distant from these hubs.

Thus, while localised policies to attract advanced manufacturing and high tech, digital industries are desirable, they are not a panacea, and they may not work in locations that lack a supportive infrastructure. Moreover, as Lee and Clarke (2017) demonstrate, while they directly create some high skilled, high wage employment, they also support the creation of relatively low wage work in local non-tradeable services (like childcare, retail,

hospitality, domestic services) and therefore in and of themselves will not solve problems of low pay in a locality. Lee and Clarke argued that this:

“does not mean that advanced industries reduce living standards for people on low wages but it does act as a reminder that the expansion of such industries will not solve the UK’s low pay problem. A modern industrial strategy must be able to take in both these advanced industries and help to raise productivity in non-tradeable sectors. A failure to focus on industries like retail and hospitality that are low paying but employ much of the population is likely to mean a failure to narrow regional divides or boost living standards.”

(Lee and Clarke, 2017: 6)

This issue was identified as long ago as 1999, in Finegold’s seminal article on the creation of California’s high skill ecosystem.

These problems with reliance on high tech clusters and smart specialisation as drivers of regional economic regeneration have given rise to the emergence of what might in some terms be regarded as a countervailing literature on the need, particularly in disadvantaged regions and localities, to focus more attention on trying to help and support improvements in the ‘foundational economy’ wherein the vast bulk of the local workforce are employed (Schafan, Noah Smith and Hall, 2020; Bowman et al, 2014). This is important because not every ‘left behind’ community or locality has or is likely to ever possess a research-intensive university to help catalyse the emergence of a high-tech cluster, nor are all research-intensive universities able to generate successful cluster formation. The reality of communities where the bulk of employment opportunities reside in relatively low tech and mundane sectors links back to the earlier discussion of how tackling the problem of low pay sectors and firms has loomed large in emerging skills strategies in some MCAs, and the concept of the foundational economy has been influential in the development of the Welsh Government’s economic policies. Within such local economies, the role of a different form of innovation support, provided by FE colleges may be important, and is discussed below.

Wider models of innovation support

The OECD’s 2020 report on broad-based innovation policies argues for the need to build regional innovation systems that go beyond a focus simply on cutting edge technological breakthroughs and which also seek to boost technology diffusion and adoption and to bolster the capacity of workplaces to adopt new practices and forms of organisation. For example, in Finland the Liideri business development programme aimed to help companies to “renew their business practices by developing their leadership abilities, their work processes, and by constantly utilising the know-how of employees” (Oosi et al, 2020: 8). This broader model of innovation is less dependent upon major scientific breakthroughs and places more emphasis on incremental improvements to products and

services and to process improvements in their delivery. This model is commonplace in much of Northern Europe, Canada and the Basque Country in Spain and is supported by elaborate systems of broader innovation support (see Ramstad, 2009; Keep, 2016).

The central problem with UK government's reliance on traditional models of science and innovation to drive economic change is that it is an activity that takes place in only a tiny minority of UK companies – 75 per cent of private R&D spend in the UK takes place in just 400 firms (Haldane, 2018), and of three million active UK firms, just 60,000 claim R&D tax credits. The other 98 per cent do not (ISC, 2021: 34). If innovation policy is to boost productivity and competitiveness in the mass of firms then innovation support has to be thought of and delivered in wider terms that cover various forms of workplace and employee driven innovation (Hoyrup et al, 2012; ISC, 2021).

One possible way forwards is to consider the potential role of further education colleges providing this kind of broader innovation support service. As the FE White Paper (DfE, 2021) indicated, in many of our less prosperous communities and urban areas the main vocational and post-school education and training provider will be the local further education college. This positions them as key actors in finding out what local skill needs are and then organising provision to meet these. However, colleges also represent a fresh resource in delivering business support and improvement, thereby helping local firms to innovate, to upgrade their productivity, be better employers and use skills more productively.

Low skills equilibria

Finally, there is evidence that some sectors and localities may be trapped in a more general low skill equilibrium that can be difficult to escape. The LSE phenomenon is a complex and large topic which cannot be dealt with in any detail in this review but is important to note that there is evidence for the existence of these 'low skills traps' in some UK sectors and localities (see Wilson and Hogarth, 2003; Hodgson and Spours, 2013; Sissons, 2020, Seaford et al, 2020a). For indications of those localities that may be suffering from this problem see the map in Government Office for Science Foresight (2017: 75), and Figure 2 in Atkinson, Lupton and Crowley (2017: 4).

In localities where an LSE is in force, efforts to better align skills supply with current demand will potentially generate limited economic or social gains unless and until efforts can be made to stimulate the underlying level of demand for skills within the sector or locality, or as Green (2016: 3) puts it: "a supply-side push alone in areas and sectors experiencing a low skills trap seems unlikely to be sufficient in effecting an escape from the low skills trap". As noted earlier, if demand for skills is derived from business need, then demand side interventions will also be necessary, including business support, promotion of workplace re-design and innovation and new models of work organisation and job design. There needs to be a 'dual customer' approach whereby the skills system sees both employers and individual workers as its customers, and in some instances

provides support to individuals to help them progress by changing job (Sissons, 2020). This in turn requires the capacity and willingness to work across policy domains other than skills (Green, 2016). It also suggests the need for a spectrum of high-quality business support and improvement services, which in many localities are lacking and even when present are not necessarily particularly well integrated with one another (Greater Manchester Combined Authority, 2016; Payne, 2018; Zymek and Jones, 2020).

Unless the nature and volume of business need can be adjusted upwards, generating a need for more and higher-level skills, then upskilling the working population in any given locality may produce limited impacts by way of better jobs, higher pay and improved productivity within that locality. Business needs to up its game if the intended outcomes are to materialise.

Having explored what research can and cannot tell us, we now turn to a brief and very partial overview of a selection of local skills initiatives in England.

Overview of a Selection of Local Skills Initiatives

This project undertook a small-scale sampling of some of the schemes and organisations that have sprung up in recent times and in a variety of localities around this policy agenda – given there is so little research literature on the current local institutional landscape of skills provision and its linkages with wider business support and improvement. It is by no means comprehensive and offers a descriptive, snapshot view of their activities. The aim is twofold – to give some idea of the variety of scales, foci and institutional forms of local skills initiatives, and to extract some general lessons about their development (current and potential).

Local skills initiatives – a sample of activities

The activities outlined below span a broad spectrum of organisational forms, foci for activities, funding sources, scale, and reach. They are varied because, in part, local circumstances and needs are diverse and require institutional and programmatic responses tailored to what is required on the ground. They also reflect different stages of development in local capacity to design and manage integrated strategies that cover not just skills supply, but also its links to wider innovation, economic development and business support policies and goals. This in turn reflects the varied distribution of devolved powers and funding across the geographic space of England. Some localities have MCAs and therefore the devolution of some elements of funding and policy design (largely relating to adults, but in some cities also non-core elements of apprenticeship policy). Other localities have only a LEP and the very limited, time-limited project-based funding that the LEP can acquire to support skills activities and policies.

See Annex 1 on supplementary document ‘local skills initiatives research’

See Annex 2 on y link ‘local skills initiatives – supplementary info’

Overview

What this very partial and ‘light touch’ mapping reveals is the existence of a very diverse range of local institutions. These are largely invisible in the national policy discourse (the work of MCAs excepted), but are in many instances engaged in precisely the kinds of activities required to deliver the levelling up agenda.

The actors involved in organising these local for a/delivery agents are varied, ranging from:

- Local government
- FE College groupings
- Colleges and other providers

- Universities
- University Groupings
- University and college groupings
- Employers

And the range of activities that they undertake is similarly varied:

- Careers advice
- Work experience
- Apprenticeship promotion and delivery
- Collective local delivery of government programmes such as Kickstarter and Skills for Growth
- Education and training for those with underlying health conditions and disabilities to help them enter the labour market and sustain employment
- ESOL
- Skills support for the self-employed
- Skills support for SMEs
- Digital skills training
- Responding to local skills shortages
- Promoting and facilitating inclusive recruitment and selection/employment practices
- Helping firms to undertake skills audits and identify training needs
- Upskilling for those in low paid work (in collaboration with their employer)
- Community wealth building
- Business support (including for start-ups)
- Job creation

In many instances the local organisations were packaging up their 'offer' to firms, individuals and the local economy into bundles of mutually reinforcing support services that could help employers to upgrade their business model, employment practices and skill usage. In other words, the focus for activity has often moved beyond skills supply and contains elements that seek to influence the demand side. Local skills organisations have embraced the Cabinet Office PIU's (2001a & b) point about skills as a derived demand and recognise that until they shift the dial on business need for skill their impact on local economic performance will be limited.

The work of these bodies is funded from a variety of sources, including:

- Devolved AEB
- Department for Work and Pensions (DWP)
- Department for Digital, Culture, Media and Sport (DCMS)
- European Social Fund (ESF)
- Local Authority Grant Scheme
- Growth Deals

- City Deals

A point to note here is the widespread use of ESF funds by the bodies covered in this sample. With the UK's withdrawal from the EU, the ESF will vanish and is being replaced by the UK Shared Prosperity Fund (UKSPF). In managing this transition it will be important to consider the degree to which the UKSPF prioritises the funding of central government-designed UK-wide initiatives versus making funding available to deliver locally designed and targeted interventions.

The sample also highlights the growing importance of collaborative groupings of providers – of FE colleges, FE colleges and independent training providers (ITPs), FE and HE (e.g. the Graduates for D2N2 Consortium), and FE, HE and ITPs (e.g. the Tees Works Skills Academy). A local focus for joint working across institutional boundaries seems to have emerged in the last few years and suggests that at least some providers are rejecting the more extreme versions of a marketised approach to institutional and sectoral relationships and see the future as greater collaboration and less direct competition (Keep, 2018). The DfE's Strategic Development Fund is an attempt to incentivise such behaviour.

Policy issues and choices

From the perspective of national policy this brief and partial survey of existing local institutions and initiatives raises a number of questions and issues:

1. Should DfE (and other government departments) be seeking to encourage this kind of development, and if so, how?
2. Does DfE need to have a better knowledge and understanding of these local institutional arrangements in order to identify the design and operational principles (models of good practice) that can best help deliver national policies and programmes at local levels. If this need exists, how should DfE obtain this overview and understanding and how might it then spread best practice?
3. A set of issues relating to the relationship between local institutional arrangements and priorities and national policies and programmes, explored further below.

Besides the rich and in national policy terms only semi-visible array of locally-sponsored bodies, there are now or will shortly be a number of nationally-sponsored but locally-focused institutional and programmatic elements of policies in play:

- LEPs and their Skills Advisory Panels (SAPs)/Skills Boards – although these will not be funded after 2022-23
- MCAs
- City deals
- County deals

- Local Skills Improvement Plans (LSIPs) – and DfE has now publicly stated the intention for future LSIPs to mirror the geographical boundaries of existing Combined and Mayoral Combined Authorities including the Greater London Authority, and to align with the geographies of further devolution deals in the long-term
- Strategic Development Fund (SDF) pilot areas, which aligned with LSIP trailblazer boundaries
- Digital Skills Partnerships (sponsored by DCMS)
- BEIS’s digital technology transfer scheme, which some colleges are delivering

For a fuller survey of this somewhat cluttered landscape, see Westwood, Sensier and Pike, 2021).

A key question is how best to go about enabling fruitful and mutually beneficial interplay and interaction between national level policy and programmes and local institutions and initiatives. We have the LEP-driven local skills reports and MCAs with a devolved adult skills budget under their control, and we will also have LSIPs and Strategic Development Fund pilots (a sub-set of which cover the LSIP trailblazer areas) – but what coordinating or information exchange mechanisms might be required to:

- help those at national level to have an up-to-date overview of local aspirations and plans for delivery;
- help local actors to have a clear view of what DfE and ministers are aiming to achieve; and,
- enable effective coordination, joint working and the sharing of data and best practice?

Thought is needed to whether and how these separate building blocks could be used to construct a new ‘systems architecture’ and governance structure for E&T in England, and if some current arrangements are not fit for this purpose, what changes and/or additions would be required to create a joined-up offer (Westwood, Sensier and Pike, 2021).

For example, the DfE’s (2021) White Paper on FE recognised that we have sometimes witnessed wasteful competition between providers within a locality and set out measures to start to rectify this. One example is the Strategic Development Fund, which aims to financially reward cooperative ventures. Pursuing greater coordination and cooperation will be important to delivering any levelling up agenda. It should also be acknowledged that in some areas FE colleges themselves have taken the lead in assembling coalitions of providers in order to address the skill needs emerging from their ‘local’ combined authority - see for example the Greater Manchester Colleges Group, the West Yorkshire Colleges Consortium, and Colleges West Midlands. This approach may need to appear in other parts of the country.

However, if a more unified local skills system is an end goal, there remains much work to be done, in particular to integrate the HE system. It is noticeable that up until now the HE

system has remained largely outside national government thinking on local skills planning and interventions more broadly. This has been despite the fact that, as highlighted above, local collaborative partnerships are emerging (Always et al, 2022) – and despite the salience of universities in areas such as innovation-led economic development and the re-emergence of interest in their role as civic institutions (Civic Universities Commission, 2019; Brabner, 2021). It is worth noting that the Skills Bill does include HE in the relevant providers which have duties placed on them (such as in response to LSIPs) – but it remains to be seen whether this will lead to stronger coordination among HE and other local institutions.

The absence of HE in national policy is not the case in Scotland, where the Scottish Funding Council (SFC) is experimenting with Tertiary Provision Pathfinders, which aim to deliver closer alignment between local skills supply and demand from employers, and which encompass both local colleges and universities. In a similar vein, BEIS's Place Advisory Group's input to the Innovation Strategy argued for a much more integrated approach to innovation policy at local level so that, "R&D interventions seeking to make the most of places' potential must be part of a wider strategy for that place, considering skills, infrastructure, business support and regeneration, tailored to each place's needs" (BEIS, 2021: 73).

Moreover, as has been discussed above, besides a coherent and capable system of local business support, one of the key issues in local economic regeneration is ensuring that there is collaboration and a local 'systems' approach to providing a joined-up 'offer' to local businesses around up and re-skilling their workforces. In many instances this needs to encompass both FE and HE institutions, but hitherto this is not always easy to contrive in conditions where funding and other forces sometimes tend to incentivise institutional competition rather than collaboration (between colleges and universities, and between college and college and university and university) (see, Keep, 2018; Bhattacharya and Norman, 2021; Alway et al, 2022). Experience of recent large-scale local regeneration initiatives has demonstrated the importance of creating partnerships that can deliver re-skilling at all skill levels. For example, witness the work of the cross-sectoral coalition of local colleges and Teesside University (the Tees Works Skills Academy) that emerged in response to the closure of Redcar steel works in 2015 (see Bhattacharya and Norman, 2021: 20).

General Lessons, Policy Questions and Possible Lines for Future Policy Development

Lessons

Future directions and design principles for local skills systems

If we are moving towards a stronger local component/level of skills policy design and delivery then thinking needs to start on what design principles might inform experimentation and development in this field.

A rare study of a local skills system in England (the Black Country) commissioned by the DfE suggests that a key issue in ensuring that localities are capable of meeting future skills challenges will be: securing stable and adequate funding arrangements; and, arriving at an equitable (to both parties) balance of power and responsibility between national government and local areas (Green et al, 2017a).

Other research by Green and colleagues (Green et al, 2016) echoes Froy, Giguere and Hofer (2012), and suggests that the key features of a robust local skills strategy and delivery system are:

- A central role for employers
- Meeting and shaping demand for skills
- Flexible and responsive training provision
- Buy-in from stakeholders (e.g. employers, trade unions)
- Integrated policy domains (skills policy is linked to economic development in order to address weak demand)
- Maximising use of the available incentives
- Harnessing the power of the public sector (for example, public purchasing policy)

These conclusions are echoed by the LIPSIT project (Seaford et al, 2020a and b). Based on 59 interviews and two workshops involving LEP staff, local authority staff and councillors, commentators, and other actors in the local economic development space, this component of the wider LIPSIT project explored perceptions of the processes and structures required to enable levelling-up to take place. The evidence is valuable because it presents a relatively rare and detailed ‘view from the coalface’ about how well existing arrangements (including those to do with skills policy devolution and delivery) are working and what changes those delivering these policies believe might be needed to improve performance – even though not everyone would necessarily agree with the conclusions drawn from the data gathered in this exercise.

In relation to the role of skills, the following messages come across clearly from the research:

1. Further devolution is needed – to localities that currently lack MCAs and also of additional powers in relation to skills over and above what has already been devolved.
2. Local institutions (LEPs and local authorities) need to build up expertise and capacity in order to craft and coordinate relatively sophisticated skills, business support and labour market interventions. There is also a need for high quality evaluations from which generalisable lessons can be derived, and for mechanisms to support the exchange of best practice once it has been identified (see also Payne, 2018, and Atkinson, Lupton and Crowley, 2019)
3. Interventions need to go beyond targeting a limited number of ‘winning’ sectors and high growth firms as these often (particularly in deprived areas) constitute a small fraction of local employment.
4. Identify firms and sectors with the potential to create good jobs—beyond ‘growth firms’ and winning sectors which often constitute a small percentage of local employment.
5. Conduct focused inward investment activities based on this analysis.
6. Partner with firms to boost skills demand in those firms and in the local economy, typically by helping firms to innovate and change their product market strategies.
7. Tailor skills strategies to the resulting demand.
8. Adopt spatial and transport policies that enable people can get to the jobs.

An additional overall conclusion from the policy-oriented research literature concerns the need to harness the expertise, contacts and enthusiasm from a range of stakeholders beyond government. Thus Lyons, Taylor and Green suggest that, “the scale of the UK’s skills challenges necessitates a partnership approach” (Lyons, Taylor and Green, 2020: 33). For a more radical vision of what a devolved and community-led skills system could look like, see Morgan, 2020.

Institution and institutional capacity building will matter

Local capacity building will be a key component of building up sub-national skills systems. As noted earlier, research suggests that for local interventions to function effectively, localities require some element of autonomy to tailor interventions to meet local circumstances and needs, and that this, in turn, requires the existence of local capacity to design and deliver programmes of activity competently (Ahrend and Schumann, 2014; McCann, 2020; Jong et al, 2021, Industrial Strategy Council, 2021). To put it another way, it is hard for national government and its agencies to superintend place-specific policies if they are unable to value and tap into localised stores of ‘metis’ or local knowledge and expertise based on a close relationship between micro-level policy design and delivery and practitioner behaviours and preferences (see Scott, 1998). The white paper on levelling up noted that:

“...the UK’s centralised governance model means local actors have too rarely been empowered to design and deliver policies necessary

for growth...This centralised approach has had several negative consequences for past efforts to level up. It under-utilises local knowledge, fails to cultivate local leadership and has often meant anchor institutions in local government have lacked powers, capacity and capability. These shortcomings have gone hand-in-hand with the lack of a clear role for business and civil society in helping to shape and deliver policy locally.”
HMG, 2022: 111

Research indicates that the current institutional arrangements for skills issues at local levels exhibit significant signs of weakness, particularly outside of the larger MCAs (see Payne, 2018; Jones, 2019; Smart Specialisation Hub, 2019). The OECD report on high tech clusters in Cambridgeshire provides a useful overview of the strengths and weaknesses of the local skills system’s ability to respond to the new skill demands that these industries are creating. Local policy capacity emerges as a familiar theme: “the structure and resources of the Cambridge and Peterborough Combined Authority itself in the skills area are still quite underdeveloped for delivering the skills strategy, especially in terms of personnel” (OECD, 2021: 55).

This points to the need for capacity building at local policy levels. The Industrial Strategy Council (2021) pointed out that this will be an essential foundation for success in any agenda to re-introduce a more localised element into skills policy in England. Their conclusion echoes the government’s 2017 industrial strategy, which noted in relation to cluster policy that:

“...key lessons from industrial policy in other countries include the need for consistency and patient effort and the right institutions to support development over the long term – particularly local institutions... Competitor economies often have better developed sectoral institutions and stronger local institutions than the UK.”
(HM Government, 2017: 119)

The levelling up white paper accepted that there were serious issues with local capacity and capability and announced a response in the shape of a new Leadership College for Government, which will provide training and development for civil servants and senior local government officials (HMG, 2022: 131).

One aspect of capacity building that will need to be explored is the way local institutions are funded. One of the reasons for current institutional weaknesses are the inherent problems with the model of ‘project-based’ funding model that has supported a lot of LEP skills work. Rather than encouraging local bodies to invest in long-term capacity building to support their skills plans and activities, it tends to lead to specialist expertise being ‘bought in’ on a temporary basis (often from consultancies). It will be important to think about how activities are funded and how capacity can be built up on a more permanent basis. This is a key enabler for meeting the policy goal of putting in place a local

infrastructure that can conceptualise skills policy in the round and deliver what are likely to be relatively complex integrated packages of policy interaction.

The temporal dimension matters

The Haldane quote at the start of the paper echoes one of the central findings from many of the other studies reviewed above – namely that to stand any chance of success, policy interventions have to be applied consistently over a relatively substantial period of time – a point with which the white paper on levelling concurred (HMG, 2022). This is a major ask in a policy setting in which rapid change and instability have been the norm for more than 30 years (Keep, 2006; Norris and Adams, 2017; Industrial Strategy Council, 2021, Westwood, Sensier and Pike, 2021).

Policy choices

The white paper on levelling suggests that in order to reverse deep-rooted historical trends in spatial inequality, there is a requirement:

“...that is about creating the right information, incentives and institutions to deliver profound changes to how decisions are made, where they are made and who makes them. System change is not about a string of shiny, but ultimately short-lived, new policy initiatives. It is about a root and branch reform of government and governance of the UK. It is about putting power in local hands, armed with the right information and embedded in strong civic institutions.”

HMG, 2022: xvi

The white paper on levelling up (HMG, 2022) charts the overall direction of travel that is expected and heralds another round of skills devolution, founded on a belief that further devolution of some elements of funding, policy and programme design and supervision/oversight to local levels is now required. If form follows purpose/function then national government needs to ponder how this devolution will be delivered and how it might evolve, because decisions about these issues will help determine the form it takes – in terms of who, what and where?

The white paper goes on to point to five generic lessons for local growth policy (HMG, 2022: 99):

1. Longevity and policy sufficiency
2. Policy and delivery coordination
3. Local empowerment
4. Evidence, monitoring and evaluation
5. Transparency and accountability

DfE, along with other government departments, will want to reflect on how these lessons apply to their contribution to the levelling up policy agenda, and what design principles will need to be built into both national programmes and the response to the next stages of devolution. This means consideration of the points below.

Outcomes and trade-offs

DfE will need to consider the type and scale of outcomes and impacts that skills interventions can (and cannot) deliver in terms of reducing spatial economic and social inequalities, and over what timescales.

Within the goal of reducing spacial inequalities, there is a potential trade-off between inclusive growth versus productivity growth. Given the very limited business support and economic development resources currently available to many LEPs/MCAs to underpin interventions within firms there may be a trade-off between inclusive growth (which some argue is important to levelling up) and productivity. DfE and local actors should decide the relative priority between these forms of growth, and how they each contribute to successfully levelling up. As Seaford et al, 2020a report:

“...this may explain why the general pattern of development has not been ‘inclusive growth’, that is trajectories where growth in productivity is associated with growth in inclusivity. Our research collating metrics of prosperity and metrics of inclusivity across 53 LEPs/CAs in the UK suggests that there was little correlation between growth of prosperity and growth of inclusivity in 2013-2018. Further analysis underway suggests that this is because some LEPs have focussed on high productivity sectors in their regions: where this has happened, then inclusivity has not generally increased (and has sometimes reduced). By contrast, other LEPs have focussed on low productivity sectors in their regions, and inclusivity in those regions has generally tended to increase, particularly in those regions where productivity was already high. However, these LEPs have generally failed to increase productivity significantly.”

(Seaford et al, 2020a: 12)

Balancing responsibilities between the centre and local agencies

DfE (and government more generally) will need to consider the balance of responsibilities between the centre (national government) and local agencies, actors, and representative structures – what is the future pace, scope and direction of skills devolution, including policy and institutional design, funding, and oversight? For example, the white paper on

levelling up (HMG, 2022) commits government to piloting deeper devolution deals with two MCAs (the West Midlands and Greater Manchester) and it will be interesting to see what bids the MCAs make for further powers over and funding for E&T, and how central government responds to those bids.

There are also decisions to be made about how integrated policies are to be. This operates at two levels: first, whether to use, modify, or redesign existing policy silos or frames in order to deliver skills interventions aimed at levelling up; and second, the extent skills interventions should be integrated with wider regional economic policy and strategy. These two points are explored below.

How suitable are traditional policy frames?

There is a question about whether in future national skills policy interventions aimed at improving productivity and a wider levelling up should be designed and delivered within the existing traditional English national policy silos or frames (14-19, schools, colleges and higher education, apprenticeships, workplace training, adult skills, community learning, ESOL, etc.) – or, whether an attempt needs to be made to formulate a more joined-up skills strategy that covers the full spectrum of education and skills activity and all (or at least the vast majority of) the different streams of provision and levels of learning.

The same choices about an holistic approach to local skills policy will also need to be made. The latter approach would chime with and build on the desire expressed in the White Paper on FE (DfE, 2021) for colleges to cooperate with each other and with other providers and would also reflect the previously noted reality in some localities of emerging examples of FE/HE collaboration to help address local skill and economic development needs. A recent report (Always et al, 2022) provides a set of useful illustrations of how civic universities and local FE colleges are working together to help transform local economies and places and makes the case for an expansion of such efforts.

In any event, using education and training to help address local productivity challenges and levelling up is likely to be more effective if the ways in which it is conceived of and delivered identify and the full spectrum of skill needs and deficiencies within a local economy, and if it takes account of the nature of learner journeys through the local E&T system and subsequent movement and progression within the labour market at all ages. Plainly one element of DfE's support for this agenda will be the work of the recently announced Unit for Future Skills (UFS) which is charged with delivering a step change in the quality of labour market analysis and intelligence, not least at local levels.

It will also be important to think through how the devolved and non-devolved elements of skills policy can be coordinated. In other words, how will DfE choose to interact with those who command the devolved elements of skills funding and policy? How will national policy and local policies and priorities best be meshed together to deliver a coherent whole – particularly, in relation to what is likely to be a national devolution

settlement that ultimately sees the Adult Education Budget in the hands of local authorities while central government retains oversight of other aspects of adult and lifelong learning policy?

Skills interventions – standalone or integrated with wider economic development?

There are major decisions to be made about the degree to which skills interventions are part of a more integrated package of measures aimed at helping localities to level up, or whether the different policy strands are delivered as free-standing activities with few direct interlinkages and limited coordination. As noted above, the clear majority view from the policy and research literature is that the way to maximise the impact of skills interventions on levelling up is nesting them within a range of other policies, such as housing, transport, job quality, economic development and business improvement and innovation support to form a combined local stimulus package.

The quote from Andy Haldane that opens this paper echoes a point that comes across very clearly in much of the research reviewed – no single policy intervention is likely to act as a ‘silver bullet’ to solve the problem of low productivity in some regions and areas. The problem is the result of the complex interaction of a set of mutually reinforcing factors that need to be addressed and tackled in the round through a suite of coordinated policy moves rather than through isolated initiatives. Boosting skills, on its own, is unlikely to produce the desired results as skilled labour is mobile, and organisations’ competitive strategies, absorptive capacity and effective skills utilisation are generally not determined by supply-side skills measures, but by other forms of intervention. As this paper has argued, if productivity is the outcome of a mix of factors that together deliver optimum results (capital investment in plant and equipment, R&D, wider forms of innovation, particular management practices and forms of work organisation and job design) then boosting skills supply on its own will not necessarily deliver the multiple changes that are required.

In relation to this need for a broad-based approach to meet the challenge of spatial disparities in productivity performance, Zymek and Jones observe:

“...the set of places that fall short of their potential is very diverse. It includes some cities that are falling behind as well as more rural areas, geographically remote areas as well as places close to high-productivity centres of UK economic activity. This diversity calls for local growth strategies that are carefully tailored to local conditions.....Ideally, local policy interventions should be designed to tackle whichever is identified as the most significant root cause of a place’s lagging productivity. Since it is rarely possible to make this determination with certainty, and since some of the root causes may even interact, local growth strategies need to be made “narrative-proof”. The proposed

interventions should be sufficiently broad as to be able to succeed even if the diagnosed cause of a region's economic (under) performance turns out to differ from the actual one.”

(2020: 58-59).

As a result, much of the regional economic development research literature tends to argue for integrated local growth strategies (see Zymek and Jones, 2020), and this speaks to skills policy's linkages to other government policy agendas – a theme amplified in the government's levelling up white paper.

Links to other areas of government work

There are elements of DfE's work that mean that an understanding of and coordination/cooperation with other areas of central government policy will be important. The following are obvious starting points:

- DfE's work on Local Skills Improvement Plans and how these mesh with local economic development and business support initiatives
- BEIS's Innovation Strategy
- UKRI's place strategy and local 'innovation deals'
- BEIS/DfE Green Jobs Taskforce
- DWP's In-Work Progression Commission
- HMT/BEIS's plans to deliver Build Back Better
- The DfE's recently announced Unit for Future Skills (UFS), which will need to coordinate its work on LMI with the new Spatial Data Unit that is being established in the Department for Levelling Up, Housing and Communities (DLUHC) to transform how national government collects and analyses sub-national data.
- The full range of policies/missions announced in the levelling up white paper

In addition, at an international level, the work of the OECD's Local Economic and Employment Development (LEED) programme may become an important partner, as LEED was set up to directly address economic and employment regeneration issues in OECD member countries.

Recommendations

With the arrival of the government's white paper on levelling up, the short and medium-term policy agenda and direction of travel is now apparent. The next stages of policy development will focus on developing a detailed agenda and implementation plan for the 12 'missions' that the white paper sets out, and on thinking through how the different elements or strands of policy can be woven together to form something that adds up to more than the sum of its parts.

Policy coordination across (and even within) central government departments has not always been a strength of the UK government's model of operation (Norris and Adams, 2017). Now, levelling up requires that in addition to the melding of policies across Whitehall, central government will also need to engage in joint policy development and delivery with local government and governance at a range of spatial levels. Given the history of centralisation within E&T over the last 30 years or more, this implies a fundamental adjustment in assumptions about power relationships, the charting of new relationships and the learning of new ways of engaging in cooperative endeavour with new partners. This, in turn, requires new thinking and new ways of working.

Recommendations for further thought and action by DfE:

Skills systems architecture and governance

1. DfE should map and seek a greater understanding of existing local skills initiatives and institutions (as highlighted in this paper) and find ways to disseminate examples of good practice.
2. DfE needs to think about the future systems architecture and governance of skills policy. This includes considering what issues national policy and delivery will cover, what skills issues localities will design and deliver, and which areas and issues will need to be shared between national and local levels. Consideration will need to be afforded to how central government and local agencies will communicate with one another and how activity will be coordinated. What institutional mechanisms might be required?
3. In the context of the recommendation above, DfE should also think through how best skills policy can be conceived of and delivered in a more joined up way across traditional divisions or silos within the department – FE, HE, schools – and how the different strands of activity can contribute to the levelling up agenda.
4. Central government needs to think through what efforts will be required to build local capacity in order to deliver interventions effectively.

Linking skills to wider economic development and levelling up

5. DfE, alongside other government departments, should see devolution as an opportunity to explore the linkages between work on human capital and the other five forms of capital prioritised by the levelling up white paper, with a view to evolving a more integrated package of mutually supportive policies across government, both national and local (for example, linkages between skills, wider forms of innovation support and economic development).

Gathering information and learning as you go

6. A strong emphasis should be placed on local aspects of the work of the Unit for Future Skills. It will need to gather and analyse high quality and granular labour market information that can inform decision making at local levels.

7. Consideration should be given to evaluation of the skills work of Combined Authorities, and considered alongside the planned evaluation of LSIP trailblazers. Looking to the future, the skills aspects of the two pilot 'deeper devolution' pilots (Greater Manchester and the West Midlands) which are presaged in the levelling up white paper need to be evaluated to distil wider lessons that can be applied as skills devolution evolves.

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