

Skills in the global economy

December 2004



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FOREWORD

In an increasingly competitive global economy, with rapid and far reaching changes in technology, trading patterns and consumer demand, Britain faces new opportunities and new challenges.

This Government's stable macroeconomic framework has already contributed to low levels of unemployment and record levels of employment. But we know that to continue to thrive in this new global economy and to deliver social justice – becoming both a fairer and a more prosperous society – Britain will need a skilled and flexible workforce prepared to adapt to all the challenges ahead.

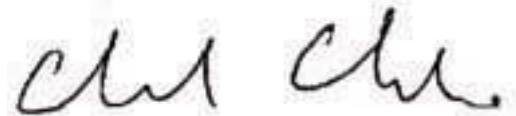
We have already set out ambitious plans to improve the skills and fulfil the potential of all our young people and adults, and we are making good progress. But as the pace of global change accelerates, we know that we must go further.

This document sets out the scale of the challenges that global economic change will place on our workforce, at all skill levels, and the next steps that the Government will take to ensure that all adults have the skills they need for sustainable employment and the opportunity to improve their skills throughout their working lives.

There is much to do to equip Britain's workforce for the future, so today we ask employers, unions, individuals, schools, colleges, universities to keep working closely with government so that together we can meet the challenges ahead.



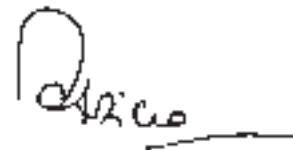
GORDON BROWN



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INTRODUCTION

1.1 The Government's overriding economic objective is to build a strong economy and a fair society, where there is opportunity for all. Since 1997, economic reforms have been introduced to ensure long-term macroeconomic stability. This provides a platform for building prosperity, achieving social justice and tackling historic under-investment in public services.

1.2 The Government's macroeconomic framework has helped the UK to confront the significant challenges that have faced the world economy over recent years. The UK economy grew continuously throughout the recent global downturn. The UK was the only G7 economy not to experience a contraction in output in any quarter over this period. This period of growth represents the longest unbroken expansion since quarterly national accounts data began, with Gross Domestic Product (GDP) having increased for 49 consecutive quarters.

1.3 This stability and growth has contributed to the achievement of low unemployment and record employment. The UK unemployment rate has fallen to 4.6 per cent, the lowest for a generation, while the working-age employment rate has reached 74.7 per cent, the highest of the G7 economies. These improvements have been more fairly distributed than in the past – employment has risen in every region of the UK and disadvantaged groups, such as lone parents, have seen faster increases than the national average. Through labour market policies, such as the New Deal, the Government is on track to extend employment opportunity to all and meet its goal that by 2010 a higher proportion of people are in work than ever before.

1.4 Building on this platform of stability and economic strength, the Government is determined to go further. It aims to transform the UK into a high-skill economy, where everyone can benefit from the opportunities that global change offers and is able to respond to the challenges ahead, regardless of their background and regardless of where they live. This will help to close the productivity gap with other countries and ensure that the UK is well placed to deal with the changes taking place in the global economy. The 2004 Pre-Budget Report and its supporting documents set out these global challenges in more detail.

1.5 Just as improved employment opportunities have helped those who have previously missed out, so measures to improve the UK's skill mix must help ensure that everyone can contribute to and benefit from rising prosperity. Extending the opportunity to improve skills to everyone across the country can make a significant contribution to achieving social justice, improving social mobility and enabling everyone to reach his or her potential. Success on the skills agenda will play a key part in achieving the Government's aim of combining economic growth with fairness, improving the life chances of children in low-income households and breaking the cycle of deprivation.

1.6 Success on this agenda is central to the prospects of the economy because, as Box 1.1 sets out, the relative success and prosperity of an economy depends on how productive it is. Skills are one of the major factors that can influence productivity, so the relative weakness in some aspects of the UK's skills mix will tend to constrain growth. Skills are also complementary to other factors that can improve productivity, such as investment, innovation and enterprise. Without an adequately skilled workforce, firms will be unable to take full advantage of new technologies and production techniques.

Box 1.1: The economic case for a high skill economy

In the long run, the prosperity of an economy depends upon how productive it is. In turn, productivity depends in part upon the skills of the workforce, known as human capital. Human capital can affect productivity both directly, by improving labour productivity, and indirectly, by facilitating innovation and investment. The UK is less productive than some other countries and its relatively poor skills explain part of the gap.

The skills of the UK workforce partly determine the types of jobs and industries the economy can support. In the global economy, countries tend to specialise in areas where they have a comparative advantage. The comparative advantage of the industrialised world lies in more knowledge-based goods and services. For the UK to be prosperous and successful it needs to ensure that it is well placed to succeed in these knowledge-based goods and services, which it cannot do unless its workforce is adequately skilled. However, although emerging economies' overall comparative advantage will still be in labour-intensive industries, their relative importance in knowledge-intensive sectors will also rise. China has around 20 million graduates, while India produces 2 million graduates each year, even more than the US.

Businesses require a skilled workforce to take advantage of new technologies and production techniques. However, they also need to be able to adjust their strategies to reflect an increased supply of skilled workers. If they cannot, or if there is a shortage of skills in the economy, theory suggests that they may respond by adjusting to, or remaining in, competition in low value-added markets – leaving the economy trapped in a 'low skills equilibrium'. Individuals are more likely to be employed and tend to be better paid if they are more highly skilled. The impact of skills on pay and job prospects is likely to further increase as international competition and technological change intensify and advanced countries, such as the UK, specialise further in knowledge-based industries requiring high levels of human capital.

The benefits to businesses, in terms of more productive workers, and individuals, in terms of a better chance of being in work and higher pay, suggest that both should have an incentive to invest in skills. However, investment in skills by firms can be constrained by lack of information about the benefits and the direct and indirect costs of allowing workers time to train. Individuals, particularly those with low skills, can also face barriers to learning. For example, surveys show that many people lack information about the learning and training opportunities available and can be constrained by the cost of taking these up.

This suggests that investment in training is lower than optimal, constrained by the following broad categories of market failure:

- externalities that occur as firms cannot capture the full benefits of their investment in training (for example, in industries with high staff turnover);
- imperfect information that means employees and employers cannot correctly judge the benefits of training; and
- credit and time constraints, particularly for the lower-paid and small organisations.

The Government's approach, set out in more detail in Chapter 3, is to focus funding where there is market failure. These market failures are particularly prevalent at low skill levels.

1.7 Individuals and communities denied the opportunity to gain skills may be unable to take advantage of future opportunities and risk becoming locked in a cycle of worklessness and decline. Those with more qualifications are more likely to be in work, to be supported by their employers to update and improve their skills, and to be paid more. Increasingly, job security relies upon employability rather than the old notion of a job for life, and employability depends upon acquiring the skills that employers need. More widely, having skills can enable people to contribute to their communities and aid their personal fulfilment.

CHALLENGES AHEAD

I.8 The problems of relatively low skills and inequality of opportunity have developed over a long period of time and previous approaches have failed to bring sufficient improvements. Future global change – characterised by intensified global competition, accelerating technological development and changing patterns of consumer demand – only serves to make the realisation of a highly skilled workforce a more important foundation of economic prosperity and social justice.

Enhancing flexibility

I.9 Flexibility in labour, capital and product markets helps to ensure that firms and individuals can adapt to the changes occurring in the global economy. A high degree of flexibility minimises disruptions to output and helps the economy to maintain high rates of productivity growth and sustain full employment. The UK is widely regarded as having one of the most flexible, open economies in the world. Preserving the advantages afforded by the UK's flexibility is key to its future success in the global economy.

I.10 The Government has sought to enhance this flexibility, without sacrificing fairness. For example, the introduction of the National Minimum Wage and reforms to the tax and benefit system have helped to improve significantly the position of the low paid, while also increasing work incentives. Improvements in skills can enhance the flexibility of the economy by ensuring that firms are not constrained in their choice of production techniques or ability to innovate. Combining flexibility with fairness ensures that everyone in society has the support they need to achieve their full potential in a modern, dynamic economy. A more detailed assessment of the flexibility of the UK economy can be found in Annex C of the 2004 Pre-Budget Report.

The historic problem of low skills

I.11 While the UK has long been recognised as having a flexible, open economy, it has failed to combine this with an adequately skilled workforce. It now compares relatively well at some levels – particularly the number of highly skilled workers. However, historically it has had a poorer skills mix than many other countries, especially at basic and intermediate skill levels. As a result, growth, innovation and investment have been constrained. While improvements are being made in the skills of young people coming into the workforce and of adults already in the workforce, the pace of improvement needs to be stepped up.

I.12 In the past, the opportunity to acquire skills was too often confined to a privileged few, locking in disadvantage and poor social mobility and denying too many people the chance to fulfil their potential. Just one in 18 young people participated in higher education in the early 1960s. Even as late as 1979 fewer than half of the workforce held any qualification. Successive governments have recognised this problem and have achieved improvements, particularly in higher education. However, policy responses have not secured the transformative effect needed given the scale of the challenge.

I.13 The legacy of this historic failure can be seen today. The UK has a more polarised skills distribution than many countries. Around 7.8 million people of working age in the UK have either low or no skills, a higher proportion of the workforce than in many comparator countries. Consequently fewer people in the UK have intermediate skills, which is where countries like Germany have traditionally excelled. This reflects relatively low proportions of young people in the UK choosing to stay in education after the age of 16, combined with limited skills progression and training to higher levels once in work.

I.14 At the upper end of the skills distribution, a substantial expansion of higher education – today over 40 per cent of young people go to university – means that the number of highly skilled workers in the UK compares well internationally. However, other countries, such as the US, Canada and Australia have larger proportions of graduates, and many emerging economies, such as South Korea, have rapidly increased their number of highly skilled workers. To ensure the UK maintains an internationally comparable proportion of workers with high skills, the opportunity to enter higher education must be extended further so that everyone who wants to go to university and can benefit from doing so has the chance.

I.15 In the long run, the skills distribution in an economy is largely determined by the skills of those leaving school. The UK has made progress in improving outcomes in schools, with some of the greatest improvements seen where achievement was lowest. However, a major part of achieving a high-skill economy will be ensuring that the many millions with low skills have the opportunity to progress, improving their employment prospects and helping to close the UK's intermediate skills gap.

Global economic challenges

I.16 Changes in the global economy further increase the importance of ensuring that everyone is able to improve and update their skills. The increasing openness of the global economy means that fewer and fewer industries, including in the service sector, are sheltered from international competition. This brings benefits to consumers and new markets for firms. It also means the UK cannot compete on the basis of a low-skill economy and must instead build on its strengths. The UK's future success and prosperity will depend upon it being well placed to succeed in high-skill, high value-added service and manufacturing industries. This in turn will depend upon the UK having a sufficiently highly skilled workforce. In addition, new technological developments will mean workers need to update existing skills and acquire new skills.

I.17 These global changes are likely to lead to an increased pace of structural change. As some sectors decline, so other sectors will expand. Expansion is more likely to be seen in relatively highly skilled industries. This suggests that many of the new jobs created in the coming years will be in more highly skilled occupations. In addition, the trend of rising skills required to do jobs seen in the 1990s may be expected to continue as a result of the development of new production techniques and the increasing tendency of consumers to demand products and services tailored to their individual needs.

I.18 This further suggests that individuals will need to be increasingly flexible and adaptable, learning new skills and able to move between firms and sectors. Without this they may be unable to respond to change, increasing the risk of long-term worklessness and leaving the economy unable to take advantage of the opportunities that change brings.

THE WAY FORWARD

I.19 While the Government has already set out plans to improve skills in the economy, the scale of the global economic challenges ahead means that it must go further. The Government's ambition is for the UK to become an economy with a more highly skilled workforce, able to take full advantage of new opportunities, where everyone is able to share in the prosperity that this will bring. The challenge is to combine the achievement of this with an open economy that delivers high and stable rates of growth and employment.

I.20 The UK faces important decisions about how to meet this challenge and where its priorities in improving the skills of the workforce should lie. In taking these decisions, it can learn from the experience of other countries:

- many countries are currently adding to their stock of high-skilled workers faster than the UK – even those that already have a larger proportion of their workforce with high skills, such as Finland, New Zealand, Australia and the US;
- while France has a lower entry rate into higher education than the UK, it has been relatively successful at reducing the proportion of low-skilled adults, with the proportion of people with low-level qualifications falling by over 40 per cent in the 1990s;
- Germany maintained a similar proportion of people with high qualifications throughout the 1990s, but has a large intermediate skills base, with over half of its workforce trained to that level; and
- Canada, for example, has achieved a high proportion of adults with both high and intermediate skills.

I.21 The Government is succeeding in improving the skills of the UK workforce. Significant progress is being made towards meeting Public Service Agreement (PSA) targets to cut the number of people lacking basic skills and increase the numbers improving their skills so that they have at least the minimum needed for sustained employability and progression. Participation in higher education among those aged 18 to 30 is increasing. The standards achieved in schools by young people are also improving. Further details on progress are set out in Chapter 3 of this document. **This document announces the steps the Government is taking to build on this through the nationwide roll-out of a National Employer Training Programme (NETP) and the implementation of the New Deal for Skills.**

I.22 The Government's long-term goals go beyond the current set of targets. While the UK can learn from the experience of other countries, it needs to develop a skills mix best suited to the unique challenges it faces. For this reason, **the Government has commissioned an independent review of the longer-term skills needs of the UK, as outlined in Chapter 5.**

SKILLS IN THE GLOBAL ECONOMY

I.23 The rest of this document discusses in more detail the global challenges ahead and how the Government intends to respond.

I.24 Chapter 2 sets out the importance of skills to the economy in raising productivity, and in reducing income and social disparities across society. It sets out the UK's historic skills problem and how its current skills distribution compares to those of other countries. Finally, it discusses how ongoing global change is increasing the importance of a skilled workforce.

I.25 Chapter 3 sets out the Government's current approach to improving skills and recent progress; from improving outcomes in schools, to raising skill levels among adults already in the workforce. The Government will continue to focus its attention on effectively tackling market failures in the provision of training, which reduce investment in skills needed for the economy and society.

I.26 Chapter 4 sets out in more detail how the Government will build on this progress to ensure that all low-skilled adults have the opportunity to achieve the foundation of skills, including literacy and numeracy, required for employability and progression. This includes details of a new National Employer Training Programme, building on the success of Employer Training Pilots, and new measures as part of a New Deal for Skills to ensure that people out of work can also access the training they need.

I.27 Chapter 5 summarises the approach outlined in this document and how the Government is responding.

2

THE INCREASING IMPORTANCE OF SKILLS

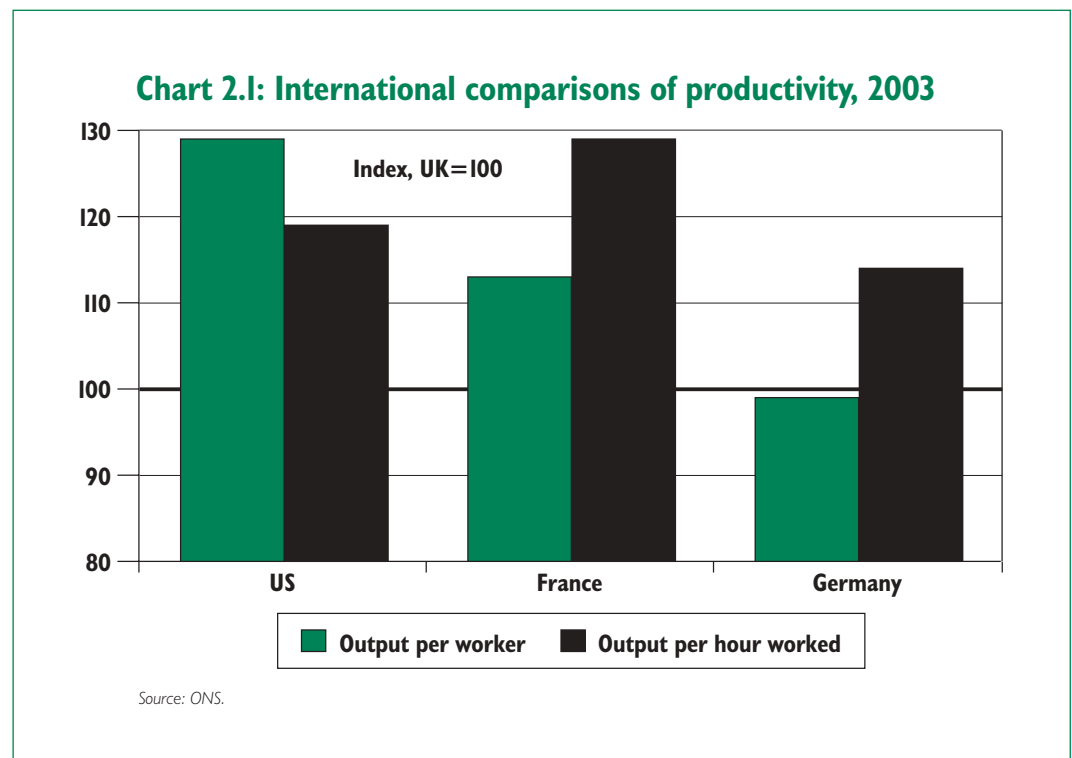
2.1 Improving skills in the UK is critical to economic growth and personal prosperity. The UK's skills profile still lags behind that of comparable economies. Furthermore, global trends, including intensifying international competition, accelerating technological change and changing patterns of consumer demand, are set to increase further the importance of skills. The 2004 Pre-Budget Report and its supporting documents discuss these changes in more detail. This chapter sets out the increasing importance of skills to the economy, businesses and individuals in the light of ongoing global change.

WHY DO SKILLS MATTER?

2.2 A highly skilled workforce is essential if the UK is to achieve the goals set out in Chapter 1 of increasing productivity, prosperity and social justice. Skilled employees enable businesses to take full advantage of new production techniques and respond to changes in consumer demand. Ensuring that everyone has the opportunity to improve their skills will enhance the employability and personal prosperity of individuals and can help to increase social and intergenerational mobility.

For the economy

2.3 In the long run, productivity is one of the key determinants of the success of an economy. Increased productivity leads to increased growth and prosperity. There are several ways to measure productivity and these are discussed in more detail in *Productivity in the UK: The evidence and the Government's approach*.¹ Two of the most widely used are output per worker and output per hour worked. Though the gap has narrowed in recent years on most measures, productivity in the UK has long lagged that of other major industrialised countries. For example, as set out in Chart 2.1, output per worker is around 30 per cent higher in the US and 12 per cent higher in France than in the UK.



¹ *Productivity in the UK: The evidence and the Government's approach*, HM Treasury (2000).

2.4 A substantial body of evidence shows that a lower level of skills in the UK explains at least part of the gap between productivity here and elsewhere. For example, one study suggests that 12 per cent of the gap with France and 20 per cent of the gap with Germany is a result of the UK having a relatively less skilled workforce.²

2.5 Skills can help to boost productivity in several different ways. Economic growth theory suggests that human capital is one of the prime determinants of labour productivity.³ Human capital is increased through both formal education and training and ‘learning-by-doing’. Having a skilled workforce can have benefits above and beyond these direct effects. For example, the impact of skilled workers can ‘spill over’ into the wider economy as a result of skilled workers being able to exchange information and learn from each other.⁴

2.6 In addition, since skills are complementary to other factors that influence productivity, a skilled workforce can boost productivity indirectly. For example, skilled workers are often better able to adapt quickly and effectively to change. They can therefore be better at implementing new investments and innovation.⁵ Unless a firm is confident that a new investment or innovation will be profitable, it will not go ahead. Evidence suggests that having highly skilled workers helps firms gain the full rewards of new investment.⁶ A lack of skills can therefore constrain investment, innovation and enterprise.

2.7 As well as improving productivity, a skilled workforce increases the ability of the economy to adjust to change. A dynamic and flexible labour market that equips people to adapt is vital if the Government is to deliver its goal of employment opportunity for all. The ability of individuals to undertake a wide range of tasks – known as ‘functional flexibility’ – is enhanced by improvements in skills. This allows the economy to adjust more rapidly to changes in production techniques and patterns of demand, ensuring resources shift rapidly to more efficient uses.

2.8 The process of structural change is an inevitable one in a flexible and dynamic economy. As the structure of the economy changes, so the demand for particular types of skills will change. To adapt to this change, people need to be able to add to and update their skills, learning new skills for which demand is rising. Without this opportunity they risk being left behind and drifting into worklessness. More than half of all those without any qualifications are currently out of work.

For businesses **2.9** Just as the growth prospects of the UK economy depend on the skills of its population, so the prospects of UK businesses depend on the skills of their employees. More highly skilled employees tend to be more productive. Evidence confirms the link between skills and productivity, and suggests that the impact of training on company productivity may be considerably larger than the effect on earnings. For example, one study shows that a 5 per cent increase in the proportion of workers trained in an industry leads to a 1.6 per cent increase in wages, but a 4 per cent increase in value added per worker.⁷

² *Britain's relative productivity performance: updates to 1999*, O'Mahoney and de Boer, NIESR (2002).

³ See, for example, *On the mechanics of economic development*, Lucas, *Journal of Monetary Economics* 22(1) (1988) and *A contribution to the empirics of economic growth*, Mankiw, Romer and Weil, *Quarterly Journal of Economics*, 107(2) (1992).

⁴ *Do social returns exceed private returns to education? Preliminary evidence on productivity spillovers in British firms*, Haskel, Pereira and Galinda-Rueda, Centre for Research Into Business Activity (2004).

⁵ *Education and training for manufacturing development*, Cassen and Mavrotas in *Skill development for international competitiveness*, Godfrey (ed), Institute of Development Studies, University of Sussex (1997); *The role of training and innovation in workplace performance*, Laplagne and Bensted, Productivity Staff Commission Staff Research Paper, AusInfo, Canberra (1999).

⁶ See, for example, *OECD: The Growth Report*, OECD (2001); and *Britain's record on skills*, Layard, McIntosh and Vignoles, Centre for Economic Performance, London School of Economics (2001).

⁷ *Who gains when workers train? Training and corporate productivity in a panel of British industries*, Dearden, Reed and Van Reenan, Institute for Fiscal Studies (2000).

2.10 Although the link is not clear-cut, investment by businesses in the skills of their workforce can also be associated with greater profitability. Evidence from the US suggests that companies making an above-average investment in training show greater returns than the market average over a five-year period,⁸ even after controlling for other factors. In addition, recent evidence shows that more productive UK firms hire more skilled workers.⁹

2.11 The demand for skills has risen at both the company and economy level over the past 30 years or so. This is a result of several factors, which are likely to boost further skills demand in the coming years:

- **rapid technological change:** in an era of rapid technological change, skilled workers are better able to adapt to new business and production techniques. Skills are reported to have risen ‘a lot’ in over 40 per cent of establishments with high levels of technological change, compared to just 25 per cent in other establishments;¹⁰
- **global competition:** increasingly, employers are operating in a global market, no longer insulated from the pressures of international competition. Evidence shows that the complexity of products and services rises in relation to whether they compete mainly in local, national, European or world markets;¹¹ and
- **product and service specification:** customers increasingly demand products and services tailored to their individual needs. Achieving this requires a skilled, adaptable workforce. Skills are reported to have ‘gone up a lot’ in almost 40 per cent of jobs in establishments producing high specification products or services, compared to less than 30 per cent elsewhere.¹²

2.12 Increased global competition will mean that UK firms will need to compete in higher value products, with technical change and new production techniques likely to be ‘skills-biased’, requiring input from skilled workers.

For individuals **2.13** The Government is committed to ensuring that everyone has the opportunity to learn and acquire the skills they need. Those with skills are more likely to be in work, progress in work and be paid more than those without skills. While in a flexible and dynamic labour market the notion of a single job for life is no longer realistic, the opportunity to acquire and update skills increases an individual’s security by improving their employability.

2.14 Chart 2.2 shows that the employment prospects for adults without qualifications are significantly worse than for those with qualifications. This disparity is likely to widen as global trends further increase demand for skilled labour relative to unskilled labour. More detail of these trends can be found in the 2004 Pre-Budget Report Report and its supporting documents.

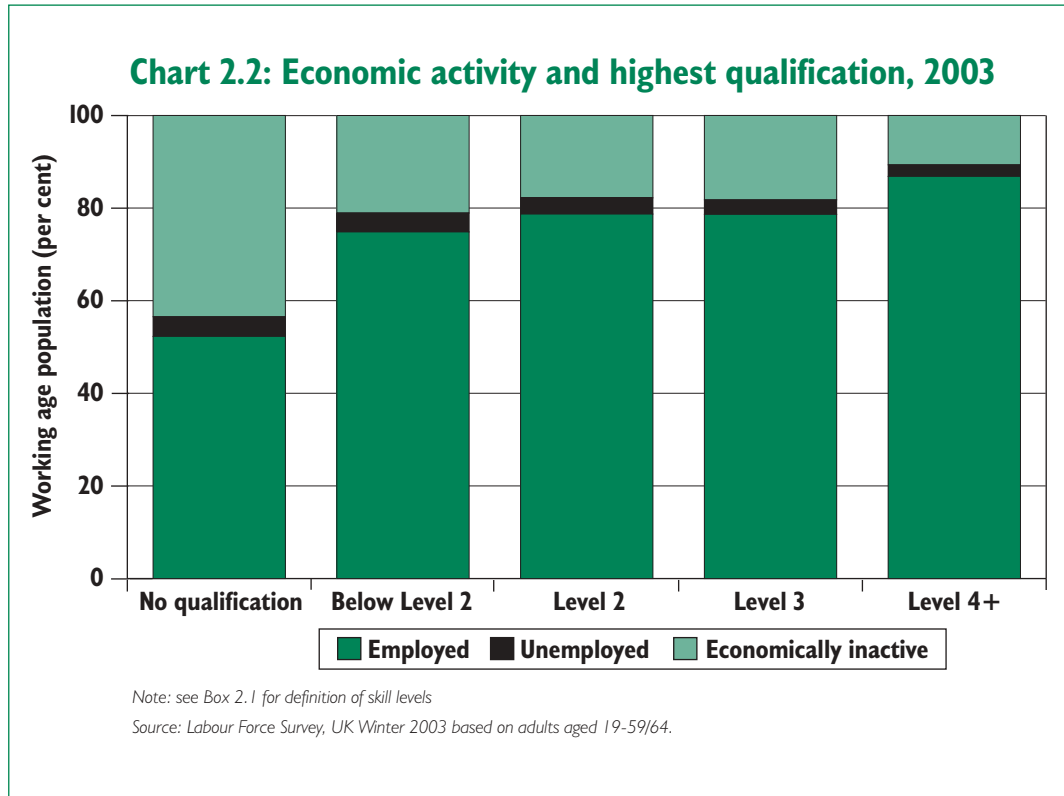
⁸ *Investing in companies that invest in people*, Bassi and McMurrer, HR.com (2002).

⁹ *Skills and productivity in the UK using matched establishment, worker and workforce data*, Haskel, Hawkes and Pereira, Centre for Research Into Business Activity (May 2003).

¹⁰ *Employer Perspectives Survey*, Green, Mayhew, and Molloy, DfES (2003).

¹¹ *Enterprise product strategies and employer demand for skills in Britain: evidence from the Employer Skills Survey*, Mason, SKOPE, Research Paper 50 (2004).

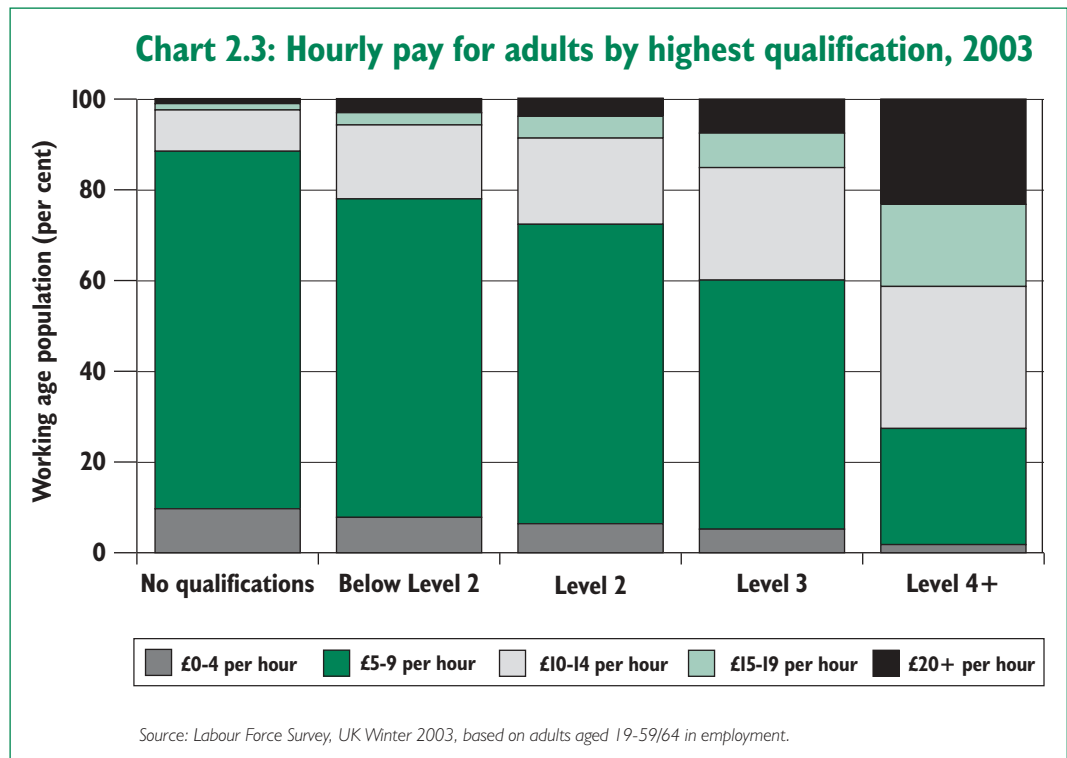
¹² *Employer Perspectives Survey*, Green, Mayhew and Molloy, DfES (2003).



2.15 Changes in patterns of employment and movement between jobs are a characteristic of a well-functioning, dynamic and flexible labour market. However, there are some people who continually move between low-paid jobs and worklessness, trapped in a ‘low pay, no pay’ cycle. For example, around 25 per cent of those who leave Jobseeker’s Allowance to move into work return to benefits within three months, and almost 40 per cent return within 6 months.

2.16 Giving everyone the opportunity to improve and update their skills can help them to break this cycle and move into better paid and sustained employment, with greater opportunities for advancement. Those with higher skills are both less likely to move between employment and worklessness and better placed to move into new employment when they leave their current job. Extending the opportunity for skills progression and promoting lifelong learning is the best form of employment protection.

2.17 Evidence confirms that more highly qualified workers tend to be paid substantially more than less qualified workers. Chart 2.3 shows the average hourly pay of workers with different levels of qualifications – those with the equivalent of at least a degree (level 4+) are paid most, those with no qualifications are paid least. The evidence clearly shows that employers are prepared to pay more for highly qualified workers in expectation of their higher productivity. However, as well as increasing productivity, qualifications can act as signals to employers of desirable characteristics, or ‘soft skills’, such as motivation and good communication skills – putting a premium on certain qualifications.



2.18 For individuals, skills are not just about work and pay. Many people enjoy learning for its own sake. When people are better educated and better trained, they have the chance to use their talents to the full, both in and out of work. Learning can help individuals in their lives outside work, for example, to manage the family finances or help their children with their school work.

Social justice 2.19 Investing in skills can contribute to the delivery of social justice. Since pay is positively correlated with qualification levels, the distribution of skills in an economy is an important determinant of the income distribution of that economy. In the longer term, investment in skills, particularly at the lower end of the skills distribution, can therefore help to reduce income inequality and poverty. Such investment also ensures that individuals are well placed to take advantage of new opportunities and at less risk of being unable to respond to labour market challenges.

2.20 Improving parents' skills and therefore employability, along with helping parents to provide the best support for their children, were identified in the Government's *Child Poverty Review*¹³ as key elements in improving poor children's life chances. Improving the skills of parents will enhance their employment opportunities and raise their chances of progression in work to higher wage levels.

2.21 In addition, improving skills at the lower end of the distribution can help to promote intergenerational mobility. There is a clear link between parents' qualifications and the GCSE attainment of their children. Children with parents from unskilled manual backgrounds, and whose parents tend to have fewer qualifications, have been shown to have a 20 per cent probability of achieving five or more GCSEs at grade A*-C, compared with 69 per cent for children with managerial or professional parents.¹⁴

¹³ *Child Poverty Review*, HM Treasury (July 2004).

¹⁴ *Education and skills: the economic benefit*, DfES (2003).

2.22 While the gap in educational attainment by socio-economic group has narrowed in recent years, it remains large. Furthermore, analysis shows that parental income and participation in education are strongly correlated and have become more strongly correlated over time.¹⁵ This suggests that social mobility has not risen in recent years. Education can help to reverse this trend and break the intergenerational cycle of under-achievement and deprivation giving every child the opportunity to fulfil his or her talents.

HOW DOES THE UK'S SKILLS MIX COMPARE?

2.23 The economic prospects of the UK depend, at least in part, on how its skills mix compares to that of other countries. It is difficult to compare skill levels internationally due to differences in educational systems between countries. For example, education and training in the US is based on state and local systems, and there are very few nationally recognised qualifications. Qualifications are a good, but imperfect, indicator of the skills that an individual has – it is possible to have a particular skill without having a formal qualification and vice-versa. However, beyond surveys that test our specific skills, data on qualifications are the only ones widely available and are therefore used for international comparisons. Box 2.1 defines the 'levels' of skills that are used throughout this document.

Box 2.1: The classification of qualifications in the UK

This document classifies qualifications into five commonly used levels:

Level 1: GCSEs, O Levels or equivalent at grades D-G; National Vocational Qualification (NVQ) Level 1; Business Training and Enterprise Council (BTEC) first or general certificate; General National Vocational Qualification (GNVQ) foundation level; and Royal Society of Arts (RSA).

Level 2: Five or more GCSEs, O Levels or equivalent at grades A*-C; NVQ Level 2; BTEC first or general diploma; GNVQ intermediate level; City and Guilds Craft; and RSA diploma.

Level 3: Two or more A Levels or equivalent; NVQ Level 3; BTEC National; Ordinary National Diploma (OND); Ordinary National Certificate (ONC); and City and Guilds Advanced Craft.

Level 4: First or other degree; NVQ Level 4; Higher National Diploma (HND); Higher National Certificate (HNC); and higher education diploma; nursing; teaching (including further education, secondary, primary and others).

Level 5: Higher degree; PhD; and NVQ Level 5.

These levels can be further classified into low skills (levels 1 and 2); intermediate skills (level 3) and high skills (level 4 and above).

2.24 Historically, the UK has had a poorer skills mix than many other countries. At all levels of the skills distribution, opportunities to achieve and progress were limited and many people were denied the chance to fulfil their talents. Higher education was the preserve of a privileged few – in the 1960s just one in 18 young people went to university. Indeed, many people did not even complete formal schooling – even in 1979, just 40 per cent of the workforce held any qualification – and relatively low proportions of young people stayed in education after the age of 16.

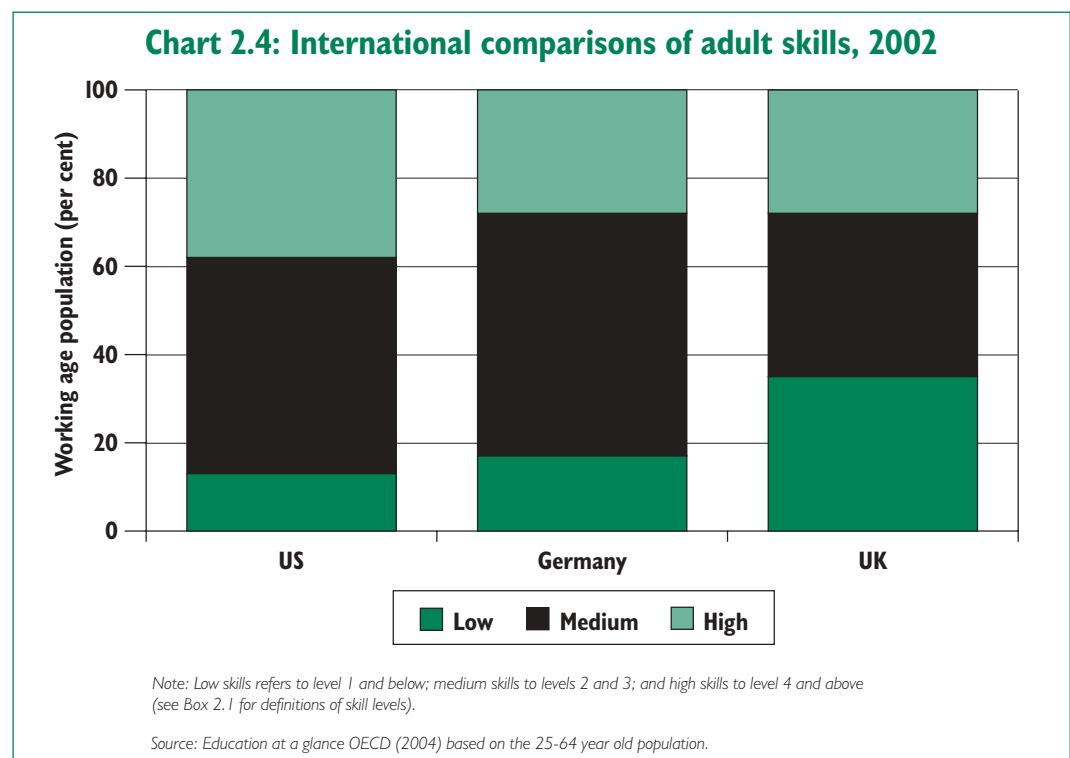
¹⁵ *Higher education, family income and changes in intergenerational mobility*, Machin, in *The labour market under New Labour*, Dickens, Gregg and Wadsworth (eds) (2003).

2.25 Not only did this mean that individuals were unable to make the most of their talents, it had adverse consequences for businesses and constrained the growth rate of the economy. Businesses found that their employees did not have the skills to take full advantage of new technologies or investments. As a result both innovation and investment, that would have boosted growth and enhanced prosperity, were constrained.

2.26 Successive governments have recognised the UK's historic skills deficiencies and have attempted to address them. In the 1960s, the system of training levies and grants introduced through the Industrial Training Boards aimed to encourage firms to increase their provision of training. In the 1980s, a greater emphasis was placed on training for the unemployed and young people, including through the Youth Training Scheme. The 1990s saw an increased focus on encouraging young people into higher-level qualifications and encouraging employers to train their staff, for example through the introduction of the Investors in People standard.

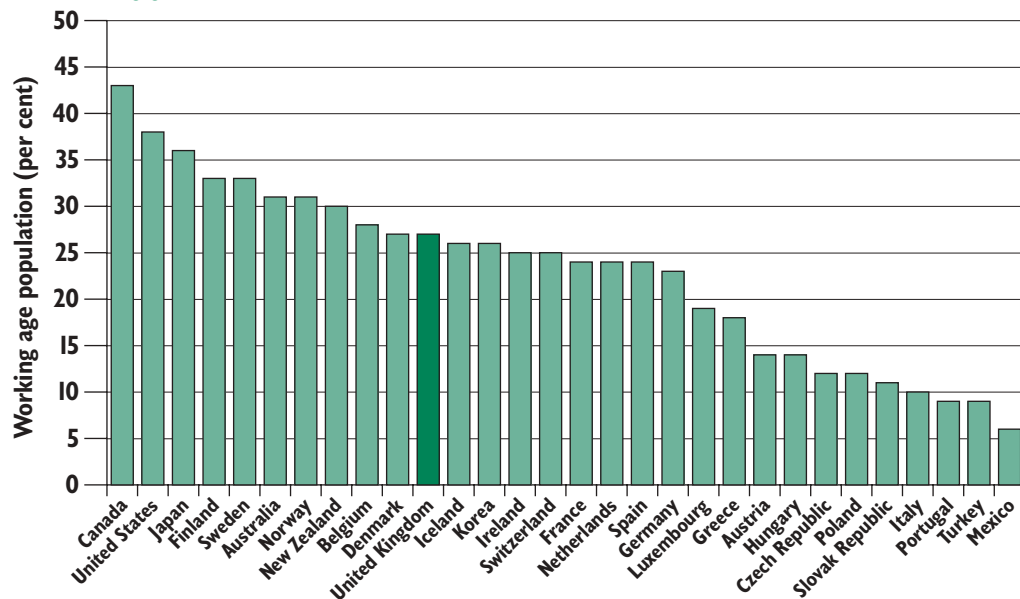
2.27 The skills of the UK workforce have improved over time. In particular, there has been a large expansion in the numbers of people entering higher education. While many developed countries have also seen a large expansion, the UK now has internationally comparable proportions of highly skilled people. The proportion of people with no qualifications has also fallen dramatically, and stands at around 15 per cent today.

2.28 However, these improvements have not been significant enough to improve dramatically the UK's comparative international position. Chart 2.4 shows the current relative skills distributions of the US, Germany and the UK, highlighting that the UK has a greater proportion of adults with low skills and a smaller proportion with intermediate skills (as defined in Box 2.1).



Higher-level skills **2.29** The number of highly qualified workers has increased substantially in the UK in recent years and the UK now compares well internationally, with around 27 per cent of the UK workforce having a degree-level qualification. However, as Chart 2.5 shows, many countries, such as Canada, the US and Australia, have larger proportions of people with high level qualifications. For example, 38 per cent of the US working age population has a high level qualification, as do 43 per cent in Canada.

Chart 2.5: Higher education attainment in OECD countries, 2002



Source: *Education at a glance OECD (2004)*, based on the percentage of the 25-64 year old population that have attained a tertiary level qualification (level 4 and above as defined in Box 2.1)

2.30 In addition, many emerging economies have rapidly increased the proportion of their workforces with higher-level qualifications. The proportion of 25-34 year old South Koreans who have tertiary level qualifications rose from 29 per cent in 1995 to 40 per cent in 2001. While the proportions of young people entering higher education in India and China are low, they each produce over 2 million graduates per year, compared with 250,000 in the UK.

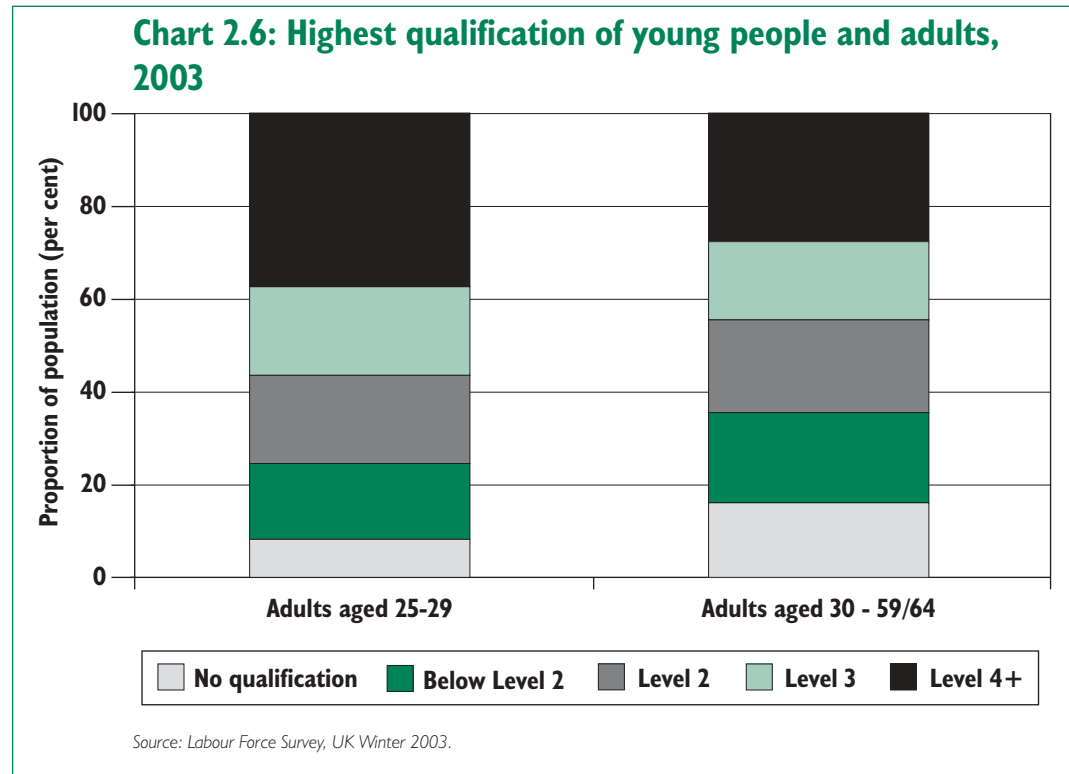
2.31 The rate of participation in higher education among young people aged 18-21 in the UK has risen from just five per cent in the 1960s to 35 per cent in 2003, and continues to rise. This has driven the increase in the proportion of workers with high skills. As those who participate in higher education flow into the workforce, so the proportion of workers with higher-level qualifications rises. Despite this increase, there remains a significant disparity in the socio-economic composition of those entering higher education – young people from unskilled backgrounds are over five times less likely to enter higher education than those from professional backgrounds. As well as being socially unjust this shows that the talent and potential of too many young people are being wasted.

Intermediate skills **2.32** The UK compares far less well internationally on the number of workers with intermediate skills, particularly in relation to Germany and other European countries. Less than one third of the UK workforce has intermediate skills, compared to over half in both Germany and France.¹⁶

2.33 This is a long-standing problem – the proportion of UK workers with intermediate skills has not increased significantly in the past 30 years. This largely reflects two facts. The first is that the number of people with such skills flowing into the workforce has remained fairly low – a result of low rates of young people staying in full-time education past age 16. The second is that those in the workforce with low skills were often given inadequate support to progress to intermediate skills. For example, only five per cent of those adults whose highest qualification is at level 2 are currently studying for a level 3 qualification.

¹⁶ *Britain's relative productivity performance: Updates to 1999*, O'Mahoney and de Boer, NIESR (2002).

2.34 However, the proportion of young people entering the workforce with an intermediate or higher-level qualification has improved in recent years. Chart 2.6 shows the skills mix of young adults, likely to have finished full-time education, compared to that of the older workforce.



Lower-level skills 2.35 The counterpart of the UK's relatively small stock of workers with intermediate qualifications is its relatively large stock of workers with low and no qualifications. Around 7.8 million people of working age in the UK do not have a level 2 qualification, equivalent to 33 per cent of the working age population. As shown in Chart 2.4, only 19 per cent of Germans and 15 per cent of those in the US have low skills (a level 1 qualification or below). France has reduced its proportion of low-skilled workers dramatically, from 26 per cent in 1991 to 15 per cent in 2001.

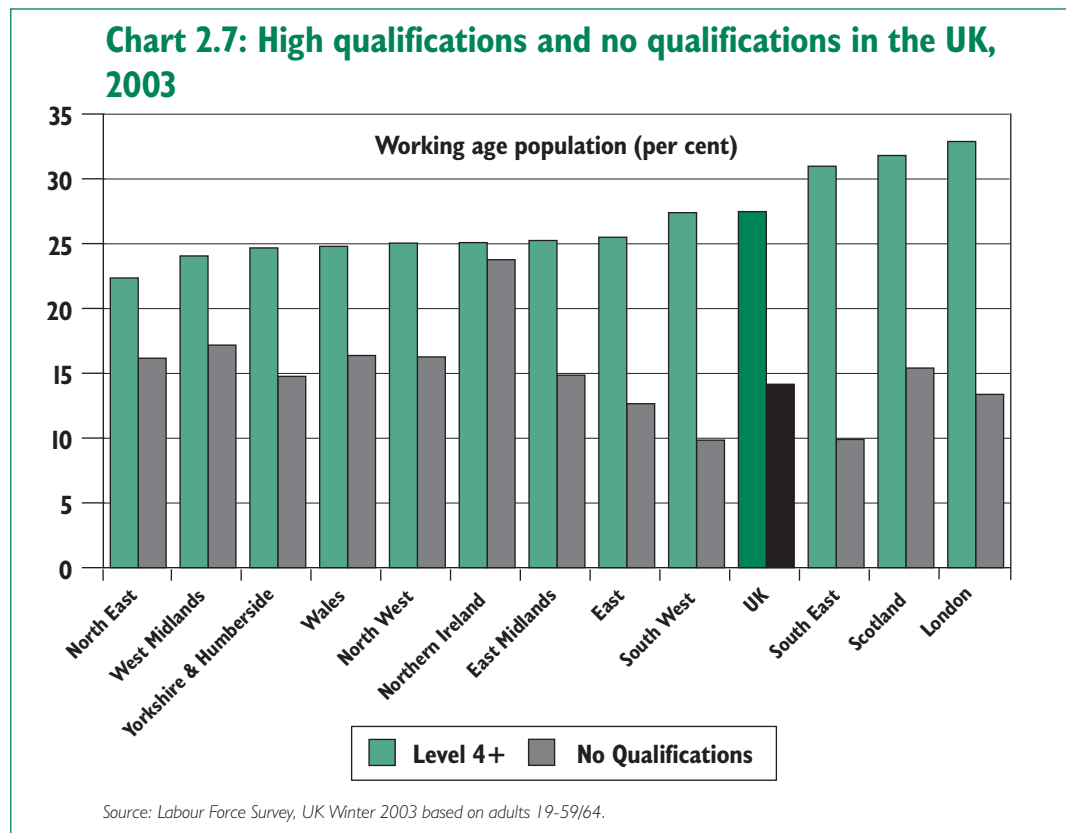
2.36 The UK has also been successful in reducing its stock of workers lacking basic skills in recent years. For example, the proportion of adults with at least a level 2 qualification has risen by over one percentage point per year over the last ten years to stand at almost 67 per cent in 2003. However, the stock of workers without a level 2 qualification remains high and, as set out above, progression from level 2 to level 3 qualifications among adults remains low.

2.37 Taken together, this analysis shows that, despite improvements in the skills of the UK workforce, problems remain. These problems are evident at all levels of skills: expansion of the higher education system is needed to retain an internationally comparable proportion of highly skilled workers and improved opportunities for progression from low skills are needed to increase the proportion of workers with intermediate skills. While the improved flows into the workforce shown in Chart 2.6 will improve the UK's skills mix, the millions of adults with low skills already in the workforce must be given the opportunity to progress if the UK is to tackle the skills challenge set out in Chapter 1.

Differences within the UK

2.38 As well as international differences, the levels of education and skills vary both within and between areas of the UK. This is particularly evident at both the higher and lower ends of the skills distribution. This contributes to regional disparities in productivity. The Government set out its approach to tackling regional productivity disparities in *Productivity in the UK: 3 – The Regional Dimension*.¹⁷

2.39 Chart 2.7 shows that the proportion of the working age population with no qualifications varies from 10 per cent in the South East and South West, to over 20 per cent in Northern Ireland and 17 per cent in the West Midlands. A similar pattern emerges when looking at level 4 qualifications, with significantly higher proportions of graduates living in London, Scotland and the South East than in the North East.



2.40 The rate of participation in higher education is lower among young people in the northern regions of England. In addition, many of those from the northern regions who attain level 4 qualifications tend to move to the South East.

¹⁷ *Productivity in the UK: 3 – The Regional Dimension*, HM Treasury (2001).

THE INCREASING IMPORTANCE OF SKILLS

2.41 As set out in more detail in the 2004 Pre-Budget Report and its supporting documents, intensifying international competition, accelerating technological change and changing patterns of consumer demand are set to further increase the importance of skills. While these global changes bring challenges, they also bring opportunities.

The challenge of global change

2.42 Changes in the pattern of consumer demand will mean declining markets in some areas, but expanding markets elsewhere. Trade liberalisation will increase competition, but also open up new markets for business. Technological change will bring new opportunities, but to take advantage of them firms and individuals will need to change the way they work. Combined, this will mean that fewer and fewer sectors, including skilled professions, are sheltered from international competition.

2.43 The advance of information and communication technology (ICT) and the fast adoption of this technology into the workplace has fundamentally altered the way in which businesses operate and organise themselves. Although it would have been impossible to predict these innovations, looking forward, the development of technologies outside ICT are expected to have a similarly profound impact on the way in which society operates. This is likely to be true for both nano-technology and bio-technology.

2.44 These developments provide opportunities for the UK economy. Countries that play a central role in developing new technologies stand to gain most from their diffusion. Skilled workers will be better placed to adapt to the new business and production techniques that technological change will bring. Unless workers are equipped with the skills to utilise these technologies, firms will be unable to make the most of them.

2.45 A further challenge comes from the improvements in skill levels being seen in many emerging countries. This increases the importance of improving and updating the skills of UK workers. However, while skill levels are rising faster in many emerging countries than in advanced economies, this is from a lower base and most of the world's human capital stock will remain concentrated in developed countries for many years.

2.46 The patterns of employment within the economy will continue to change over the coming years. The Institute for Employment Research (IER) predicts that higher skill sectors, such as business, professional and personal services and health and education will account for over 53 per cent of the workforce in 2012, compared to 42 per cent in 2000.¹⁸ Although it is important not to attach too much weight to these precise figures given the length of time over which they are forecast, these trends have clear implications for the occupations in which jobs will be concentrated and the skills likely to be demanded of the workforce.

Future skill needs

2.47 The IER analysis suggests that it is more highly-skilled occupational categories, such as managerial, professional and technical, that will see the greatest expansion over the next 20 years. IER projections to 2012 suggest this trend will continue as employment in lower level occupations declines and these tasks are replaced by new technology.¹⁹ By 2010, it is forecast that 80 per cent of new jobs will be in higher-level occupations – most likely to be filled by people with higher-level qualifications.²⁰

¹⁸ *Working Futures: National Report 2003-04*, IER (2004).

¹⁹ *Working Futures: National Report 2003-04*, IER (2004).

²⁰ *Education and skills: the economic benefit*, DfES (2003).

2.48 The basic level of skills required for most jobs in both manufacturing and services is also likely to rise. In 1997, 32 percent of jobs required no qualifications, by 2001 this had fallen to 27 per cent.²¹ It is estimated that between 1999 and 2010 around 95 per cent of all new jobs will be at level 2 or above.²² The growth of knowledge-based work favours skills such as problem solving, communication and collaboration. These skills are needed, for example, to help analyse information. They are also necessary to enable workers to successfully tailor products and services to the needs of individual customers, something that is increasingly demanded.

The need for increased flexibility

2.49 In addition to changes in the pattern of demand for skills, individuals will need to be increasingly flexible and adaptable – learning new skills and able to move between firms and sectors. The challenge for government is not to try to hold back change. Rather it is to ensure that individuals are equipped with the skills to move into expanding sectors. Increasingly job security will be provided by an individual's ability to adapt.

2.50 This adaptability can be improved in several ways. First, a higher level of skills enhances an individual's adaptability, since it provides them with the ability to perform a wide range of tasks and makes them better able to acquire firm-specific skills. Those with more skills are therefore better able to move into new sectors if their current employment ends. This implies that, while there are still likely to be jobs in the future that do not require a high level of skills, those with low skills are more likely to find themselves left behind as the economy changes.

2.51 Second, adaptability can be enhanced by the acquisition of generic transferable skills, such as team working, which apply across occupations and across sectors. These sorts of skills are becoming increasingly important within many occupations as, for example, manufacturing moves beyond an assembly line approach to a higher value-added team production style of working. They are not firm or sector-specific, which means that individuals that acquire them can be employed in many different areas of the economy: if the firm or sector they are working in begins to decline, they are better placed to be able to find work in another firm or sector.

2.52 Finally, even for those jobs that do not require a high level of skills, adaptability and flexibility will become increasingly important. This is because consumers are increasingly demanding personalised and individually tailored products and services. To meet this changing pattern of consumer demand, firms need workers who are able to provide goods and services flexibly and who can adapt to individual consumer needs.

2.53 A higher level of skills and enhanced adaptability will help to ensure that workers can respond to change and that businesses can respond to changing consumer demand and increased competition. In addition, workers must be given the opportunity to update their skills as, for example, technology changes, as well as being able to acquire new skills to change careers or sectors. Investment in skills therefore both enhances the flexibility of the economy and ensures all individuals are equipped to adapt to change – advancing flexibility and fairness together.

²¹ *Work skills in Britain 1986-2001*, Felstead, Gallie and Green, DfES (2002).

²² *Skills in England*, DfES (2001).

THE GOVERNMENT'S APPROACH

3.1 The Government has already set out ambitious plans to improve the skills of young people and adults. Improving the performance of schools and ensuring that all young people take part in some form of education or training up to the age of 19 is critical. Achieving the Government's participation target for higher education will mean that more young people than ever before will have the opportunity to progress to higher skill levels. Ensuring that all adults have the opportunity to improve and update their skills during their working lives is a priority for closing the current workforce skills gap and responding to the growing need for a more flexible, highly-skilled workforce. This chapter sets out more detail on the Government's current approach to achieving these ambitions.¹

IMPROVING THE SKILLS OF YOUNG PEOPLE

14-19 year olds

3.2 Improving the skills of young people is key to improving the skills of the future workforce. At the age of 14, young people begin to make choices that shape their future. In the past, too few young people have aspired to continue in learning after the formal school-leaving age, and the UK has one of the lowest rates of participation in post-16 learning or training in the OECD. The Government recognises that it is crucial to ensure that all young people receive the right education, training and support during the ages of 14 to 19 so that every young person can develop their full potential and become equipped with the knowledge, skills and attributes needed for adult life.

Public Service Agreements

3.3 The current direction and ambition of government policy is defined in the Government's Public Service Agreements (PSAs), to ensure that more young people reach the age of 19 ready for skilled employment or higher education:

- by 2008, 60 per cent of those aged 16 to achieve the equivalent of 5 GCSEs at grades A* to C; and in all schools at least 20 per cent of pupils to achieve this standard by 2004, rising to 25 per cent by 2006 and 30 per cent by 2008 (this target may be reviewed in the light of recommendations made in the Tomlinson report);²
- increase the proportion of 19 year olds who achieve at least level 2 by 3 percentage points between 2004 and 2006, and a further 2 percentage points between 2006 and 2008, and increase the proportion of young people who achieve level 3; and
- reduce the proportion of young people who are not in education, employment or training by 2 percentage points by 2010.

3.4 Progress is being made towards these targets. Within compulsory education, in 2004, 77 per cent of 11 year olds in Key Stage 2 examinations achieved the standards expected for their age in English and 74 per cent did so in Maths.³ The proportion of 16 year olds achieving five A* to C grades at GCSE also increased from 45 per cent in 1997 to 53.4 per cent in 2004. The proportion of young people achieving a full level 2 or equivalent qualification by the age of 19 has risen over the past ten years from 63 per cent to 76 per cent in 2003.

¹ Education and skills policy is primarily devolved, so the measures in this document generally apply to England only.

² *14-19 Curriculum and Qualifications Reform, Final Report of the Working Group on 14-19 Reform*, (October 2004).

³ The 2004 results are provisional. Final figures will not be available until January 2005.

3.5 To build on this progress, the Government acknowledges the need to raise attainment further, motivate pupils and ensure greater participation in post-16 education and training. A wide choice of learning routes and pathways, that are relevant, engaging, good quality and work-focused will be key to achieving this. This provides young people with more options, but also helps make sure that vocational training better reflects employers' needs. The Government is committed to improving the vocational options open to young people to provide both breadth of choice and increasing personalisation of the curriculum. To support this, the Government has:

- introduced GCSEs in vocational subjects in 2002/2003;
- developed work-related learning from the age of 14, funding 90,000 part-time college placements for pupils to pursue more vocationally-related qualifications; and
- increased the number of 14-16 year olds studying vocational subjects in schools, colleges and through training providers, with over 180,000 expected by 2007-2008.

3.6 The Department for Education and Skills (DfES) five year strategy also outlined proposals for a Green Paper on a new offer for young people.⁴ This is a cross-government initiative to ensure that young people have access to activities inside and outside school or college (including opportunities for volunteering and mentoring); access to advice and guidance; better targeted support for those at particular risk of poor outcomes and increased support for parents and families.

3.7 A significant contribution to the future vision for qualifications and curriculum for 14 to 19 year olds will come from the work of the independent group led by Mike Tomlinson, set out in Box 3.1.

Box 3.1: The Tomlinson Report

In January 2003, the Government asked Mike Tomlinson, the former Chief Inspector of Schools, to form a working group to look at the long-term reform of the qualifications and curriculum for 14 to 19 year olds. This group has undertaken a rigorous programme of consultation and analysis to look at how to improve the current qualification and curriculum structures to ensure that:

- **participation and attainment levels rise as the curriculum offer tackles the educational causes of disengagement and underachievement and low post-16 participation;**
- **more young people achieve specified levels in functional mathematics, literacy and communication, and information and communication technology (ICT), and are equipped with the knowledge, skills and attributes needed to succeed in skilled employment and higher education; and**
- **the quality and status of vocational education and training in schools and colleges is improved, with a clear articulation of the role for employers.**

The group published its final report on 18 October 2004, setting out a vision for reform.^a The Government has welcomed the report and will respond in full to the recommendations in a White Paper in the new year.

^a *14-19 Curriculum and Qualifications Reform, Final Report of the Working Group on 14-19 Reform, (October 2004).*

⁴ *Department for Education and Skills: Five Year Strategy for Children and Learners, (July 2004).*

Financial support 3.8 The national roll-out of Education Maintenance Allowances (EMAs) will also help to achieve continued participation in education. EMAs provide a regular weekly payment of up to £30 to those continuing in post-16 education, with further bonuses paid to students contingent on satisfactory academic progression. The evidence from pilot studies suggests that EMAs have a significant impact on post-16 participation rates, particularly among those students from less advantaged backgrounds, as well as other social effects such as helping to reduce juvenile crime. The pilots suggest EMAs will increase participation in education in Year 12 (the year following GCSEs) by 3.8 percentage points and in Year 13 by 4.1 percentage points.

3.9 In Budget 2003, the Chancellor announced a cross-government review of financial support for 16-19 year olds aimed at increasing the participation of this age group in education and training. The review's report, *Supporting young people to achieve*, was published alongside Budget 2004.⁵ The report launched a consultation on the Government's vision for a single, coherent system of financial support for 16-19 year olds. That consultation ended on 30 September and the Government is currently considering responses from individuals and organisations.

3.10 The report also set out a series of short-term steps towards achieving the long-term vision. At the centre of these was the commitment to extend the same package of financial support to unwaged trainees as to those in full-time education, and to support young people over the age of 19 to finish their course. To deliver on this commitment the Government will shortly publish a bill, for introduction in the current session of Parliament.

Training in work

3.11 The Government recognises that young people need a sufficient choice of routes and the flexibility to move between routes to develop their skills. Apprenticeships offer an opportunity for young people to combine employment with structured training, either as a direct route into the workforce, or as an avenue into higher education.

Box 3.2: Apprenticeships

Since 1997, the Government has reformed and expanded the Apprenticeship programme, with the numbers of young people on Apprenticeships growing from 75,000 in 1997 to 255,000 in 2004. The Government is on course to meet the PSA target that by 2004 at least 28 per cent of young people will have started an apprenticeship.

Apprenticeships provide a key route for young people to combine employment with structured training and will play an important role in narrowing the skills gap at intermediate level, including skilled trades such as plumbers and electricians. Recent reforms to the Apprenticeship programme now mean that there is a 'ladder of opportunity' beginning at age 14 and continuing into adulthood that will support progression from the Young Apprenticeship for 14-16 year olds into vocational or work-based learning leading to skilled employment, and also provide avenues into higher education through Advanced Apprenticeships and Foundation Degrees (explained in box 3.5). The numbers completing Apprenticeships will have risen by three-quarters between 2003 and 2008.

In November 2004, the employer-led Apprenticeship Taskforce published its interim report setting out the business benefits to employers of the Apprenticeship programme. In addition, it highlights the role played by Taskforce members in supporting the Learning and Skills Council (LSC) to achieve the PSA Target by engaging more employers in the programme. The Taskforce will publish its final report in spring 2005.

⁵ www.hm-treasury.gov.uk/financialsupport

Higher education

Public Service Agreement

3.12 Chapter 2 sets out the importance of higher-level skills to individuals, employers, and the wider economy. These skills are set to become increasingly important to a successful economy. The Government's aim is to raise and widen participation in higher education and it has set itself the following target:

- by 2010, increase participation in higher education towards 50 per cent of those aged 18 to 30 and also make significant progress year on year towards fair access, and bear down on rates of non-completion.

3.13 Some commentators suggest that this target is too high and even that the current rate of participation is too high. Chapter 2 shows that the UK has an internationally comparable, but by no means world-leading, proportion of people with higher-level skills. The target will help to move the UK towards being a world leader in higher-level skills.

3.14 In addition, other countries are not standing still. For example, many have substantially increased their rates of participation in higher education. The proportion of the workforce with skills at graduate level rose by 1 per cent per year in the US and 2 per cent per year in Canada in the last ten years. As a result, Canada already has a graduation rate in line with England's 2010 participation target: 51 per cent of 25-34 year old Canadians attain degree-level qualifications. However, it is not just the major industrialised countries that have greatly expanded the proportion of their workforce with a higher-level qualification. The proportion of 25-34 year old South Koreans who have graduated has risen from 21 per cent to 41 per cent between 1991 and 2002.

3.15 A measure of the value employers attach to these skills is given by the higher wages they are prepared to pay for workers who have them. There are a number of studies on the wage returns for having a degree. While the results differ between studies depending on the methodology used, the general consensus appears to be that graduates earn around 25 per cent more than they would have earned if they did not have a degree.

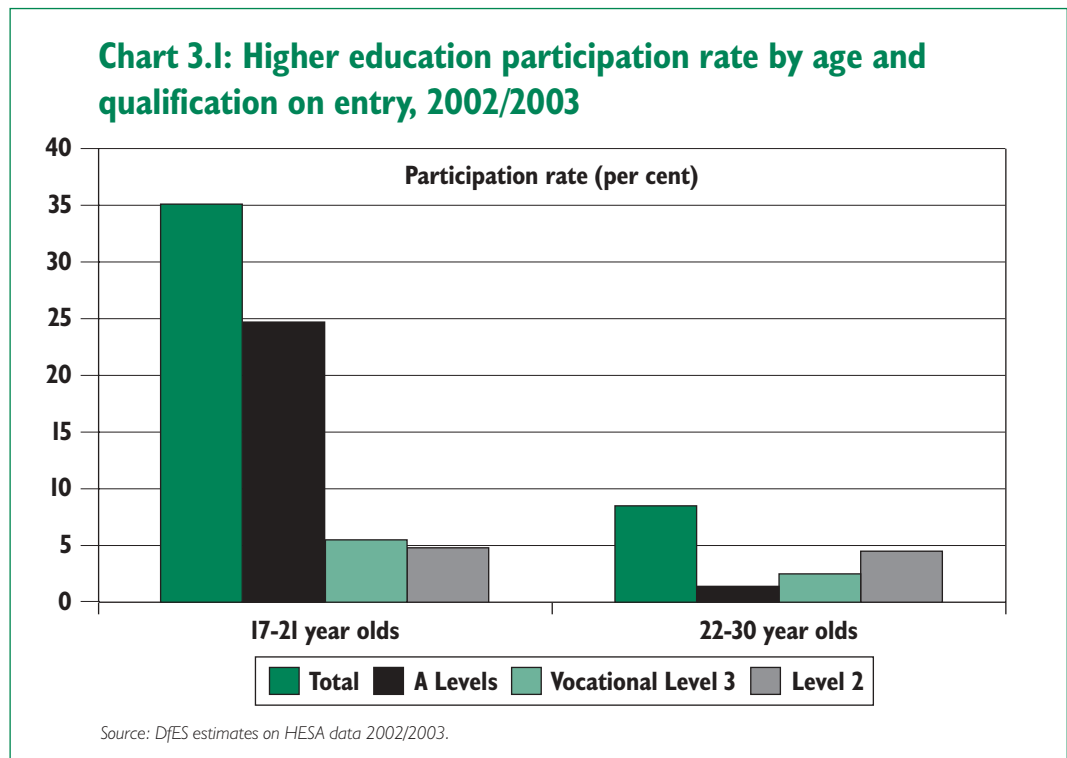
3.16 The graduate wage premium tends to vary considerably according to the subject in which the degree is awarded, even after taking into account the qualifications achieved by students prior to entering higher education. This would indicate that employers do recognise the different skills students learn during their higher education and the value that they represent to the firm. Estimates of returns by degree course have varied across different studies, but some have found, for example, that graduates in mathematics, engineering, economics and law earn particularly high wage premia.⁶

3.17 The value placed by employers on higher education appears to be relatively stable. If the UK were supplying too many graduates relative to demand, the wage return for having a degree would be expected to fall. Instead, the gap between graduate and average earnings has been sustained over time. In other countries, where expansion in higher education participation is greater than in the UK, the graduate wage premium has also remained high.

⁶ *The return to education: evidence from the Labour Force Survey*, Walker and Zhu, (2001).

3.18 The flow of people entering higher education depends on a number of factors, but particularly the level of educational attainment below this level. Prior knowledge or skills are often necessary to be able to manage the demands of gaining a level 4 qualification and higher education institutions will usually set minimum qualification requirements to gain access to their courses. The participation rate in higher education has been steadily increasing. The Higher Education Initial Participation Rate, which measures the proportion of people entering higher education across different age groups, has increased by 3 percentage points from 41 per cent in 1999/2000 to 44 per cent in 2002/2003.

3.19 Chart 3.1 below shows that the pattern of entry qualifications to higher education varies depending on the age at entry. Most people entering higher education do so between 17 and 21 years of age, having first gained A levels. However, older entrants are more likely to use a vocational route or enter with level 2 qualifications.



3.20 In order to strengthen the flow of people entering higher education, the Government is already taking action in a number of areas. Action to strengthen the vocational route into higher education for the 14-19 age group and the reform of Apprenticeships will increase the opportunities for more people to consider continuing their studies at the higher education level. The impact that the Education Maintenance Allowance is having on post-16 participation rates should also feed through to higher numbers of young people continuing into higher education. The expansion of Foundation Degrees (described in Box 3.5) should also provide a new incentive for young people and adults to progress on to higher education, by offering a new form of vocational programme, designed with employers, and completed in a shorter time than the traditional honours degree. Reforms to the qualifications framework are discussed in more detail later in this chapter.

3.21 However, even after entry qualifications have been achieved, admission into higher education is not assured. There are many reasons why someone with the required skills may not continue studying even when it is in their, or their employer's, interests that they do so. For example, they may feel intimidated by a new learning environment or unaware of the possibilities and benefits of further study.

Improving pathways into higher education

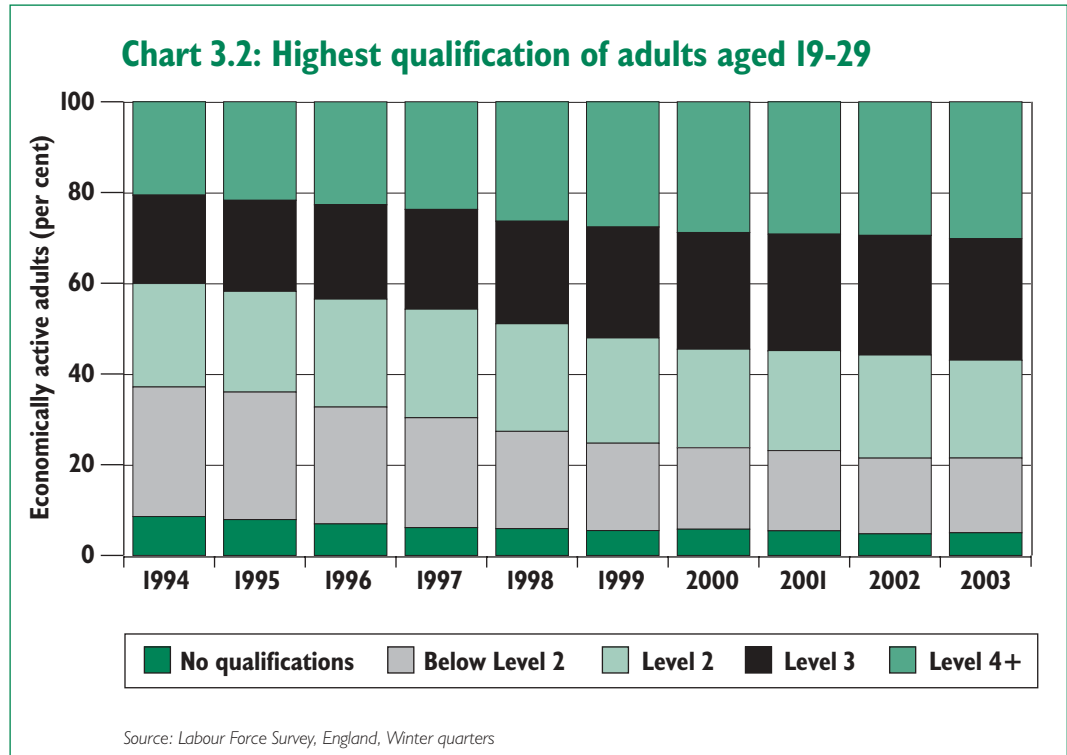
3.22 The Government wants to reduce the barriers for those with the ability and desire to make the transition from further education (FE) to higher education (HE). Many FE colleges already offer HE-level courses. This provides an ideal opportunity for those already learning at a FE college to find out about what HE study is available and try out HE study in a familiar environment, possibly even with the same teaching staff. However, to broaden the choice of institutions to which a learner might think of progressing, the Government believes more can be done by facilitating links between FE and HE institutions.

3.23 The Higher Education Funding Council for England (HEFCE) and the Learning and Skills Council (LSC) have announced plans to pilot 'Lifelong Learning Networks' to improve links between FE and HE institutions, particularly to improve vocational routes. These would be voluntary agreements covering institutions in a city, area or region, to create, strengthen and publicise progression paths and opportunities so learners can move between different kinds of vocational and academic programmes at different institutions. This may include guarantees to learners that they will be able to progress from any award offered by one partner institution to other programmes offered within the network of institutions. The aim is to increase awareness and confidence among learners so that they can move into HE studies with a choice of environments to suit their needs.

3.24 Collaborative relationships between HE and FE institutions have evolved voluntarily, with a wide variety of different existing models designed to meet local or individual institution's needs. The Government wants to build on this progress and ensure that in every local area there are appropriate progression routes from FE to HE. Although this voluntary arrangement has led to some excellent best practice, there are variations across the country. The Government believes that there is a need to ensure that progression arrangements at a local or regional level are sufficient to meet needs. Progression arrangements can develop in many different ways and involve a number of stakeholders. The Foster review of further education (see Box 3.3) will consider a number of issues, including the relationship between further education and higher education.

Progress in improving the skills of young people

3.25 Changes to improve the skills of young people appear to be having an impact on the skills of the workforce. Chart 3.2 shows that young people (aged 19-29) entering the workforce are increasingly skilled. Many of the areas of policy development outlined in this chapter have yet to have their full impact and should lead to further significant improvement. However, the next section of this chapter emphasises that it is not sufficient to concentrate on improving the skills of young people entering the workforce in order to significantly increase the overall level of skills in the workforce.



SUPPORTING ADULTS TO TRAIN

3.26 The age profile of the UK working age population is changing significantly. In 1995, the majority of those of working age were under the age of 40. By 2015, that position will be reversed, with around 55 per cent of those of working age over 40. There is also naturally a long time lag between changes to the skills of young people going through schools and colleges and the impact on the stock of skills in the workforce. This means that it will not be possible to depend solely on an improved inflow of young people to meet future skills needs. This can only be achieved by improving and updating the skills of older workers already in the workforce.

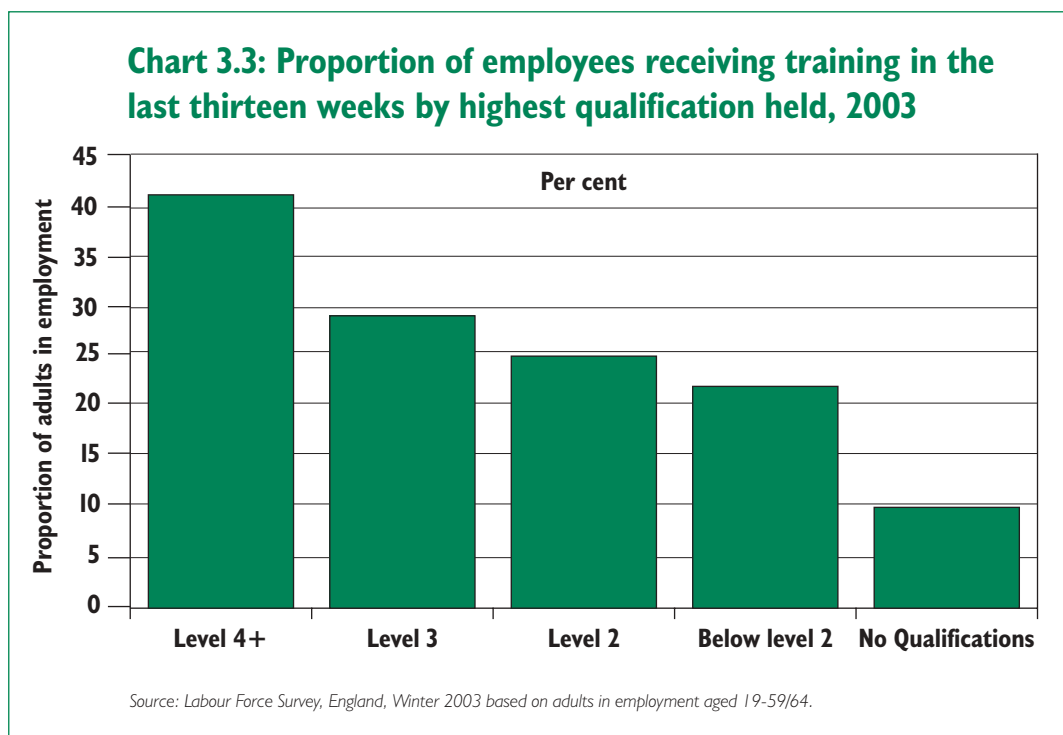
The Government's approach to supporting adult training

3.27 Improving adults' skills requires a different approach to that taken with young people. Most adults are in employment and therefore policies need to focus on supporting employers and employees. However, the Government also recognises the importance of ensuring that those not in the workforce can access the skills that they need to enter and stay in employment. The Government aims through its skills policy for adults to:

- support personal progress, both in terms of employability and career progression;
- support employers in their efforts to help workers have the right skills to do their job to a high standard and adapt to change; and
- ensure the wider economy's changing needs are met and its skills mix is improved in comparison to other countries.

Tackling market failure 3.28 Chapter 2 sets out the benefits of training to the economy, firms and individuals. More highly qualified individuals earn more and firms with more highly trained workers are more productive. Recent evidence from the US also suggests that companies making an above-average investment in training show greater returns than the market average over a five-year period, even after controlling for other factors.⁷ This means that individuals and firms should have some incentives to invest in their own training.

3.29 Evidence shows that employers do spend significant amounts on training (estimates vary, but the Learning and Training At Work 2000 Survey showed an annual expenditure on training of £23.6 billion by employers with ten or more employees). However, the training that employers do provide is least likely to be received by those with lower skill levels. Chart 3.3 shows that when employers do train they are most likely to invest in those already with higher-level qualifications. An employee with a level 4 qualification is over four times as likely to receive training from their employer than an employee with no qualifications at all.



3.30 Evidence on the financial returns to individuals of gaining different qualifications varies between the type of qualification, learner characteristics and the estimation techniques of the particular academic study. What is clear is that, on average, the returns to academic qualifications are higher than vocational qualifications and the highest wage premiums are gained from attainment of a degree,⁸ although some recent evidence has pointed to a return of 6-7 per cent from vocational training at level 2 in the workplace.⁹

⁷ *Investing in companies that invest in people*, Bassi and McMurrer, HR.com, (2002).

⁸ For example, *The Returns to Academic, Vocational and Basic Skills in Britain*, Dearden et al, Skills Taskforce research paper 20 (2000).

⁹ *An In-depth Analysis of the Returns to National Vocational Qualifications Obtained at Level 2*, Dearden et al, (2004).

3.31 There are a number of possible reasons for low and sometimes zero, wage returns to low-level vocational qualifications, including the design and delivery of the qualifications, and the extent to which the employer is engaged in supporting, and then making use of, the skills acquired through the training. The Government is taking these issues into account through reform of training provision to raise quality and standards (see Box 3.3), through reform of qualifications to better meet the needs of individuals and employers, and through giving employers greater influence over the design and delivery of training.

3.32 In addition to these low returns, the evidence points to the existence of 'market failures' that prevent firms and individuals training to an optimal level for society as a whole. *Developing Workforce Skills*,¹⁰ published alongside Budget 2002, set out an analysis on the market failures that point to why individuals and firms may not be training, particularly where individuals have low skills. This analysis identified three broad categories of potential market failure:

- externalities that occur as firms cannot capture all the benefits of investment in training (for example, due to high staff turnover);
- information problems that mean employees and employers cannot judge correctly the benefits of training (in survey data the main reasons individuals cite for not learning are a lack of information, time and money as well as a preference to do other things);¹¹ and
- credit constraints, in particular for lower-paid individuals or for small organisations.

3.33 As Chapter 2 sets out, there are productivity benefits to the economy and wider benefits to society as a whole from higher skills. These benefits will not be realised if the government leaves training choices entirely to the private market. In particular, the government needs to intervene to ensure all adults have a minimum level of skills which supports their further progression and which allows firms to benefit from the resulting gains in productivity.

3.34 Even if there is an increased supply of skilled workers, businesses need to be able to adjust their strategies to reflect this. If they cannot, or if there is a shortage of skills, they may adjust to, or remain in, competition in low value-added markets. In this way, both the supply and demand for skills can tend towards a 'low skills equilibrium'.¹² For example, many firms are not pursuing high value-added product market strategies – and so say they do not require highly skilled workers. In one survey of small firms over half said that they did not train more because sufficient training is provided on induction to the firm and a fifth said that 'further training would not benefit the business'.¹³

3.35 The importance of innovation and its link with skills was outlined in the Government's Innovation Report, published in December 2003. In this report the Government outlined a number of measures to help businesses increase their focus on innovation, including the establishment of a Technology Strategy with business, providing a framework for setting medium and long-term policy priorities. This Strategy will also identify the ways in which to raise firms' product market strategies and thus their demand for highly-skilled workers.

¹⁰ *Developing Workforce Skills: Piloting a New Approach*, HMT and DfES, (April 2002).

¹¹ *National Adult Learning Survey*, Centre for Social Research (2002).

¹² *The Failure of Training in Britain: Analysis and Prescription*, Oxford Review of Economic Policy, Finegold D and Soskice D (Autumn 1988).

¹³ *The nature of training and motivation to train in small firms* DfES Research Report RR330 p57 Kitching J and Blackburn R (2001).

3.36 It is crucial to tackle this market failure if the UK is to develop the right skills mix and be able to thrive in a globalised world. Every individual must have access to the basic level of skills they need for personal fulfilment, employability and progression. The Government's approach is to therefore focus funding where there is existence of market failure, particularly for training at lower skill levels, up to level 2.

Public Service Agreements **3.37** The Government has set out its ambition to tackle the deficit in adult skills in a series of PSA targets. The Government aims to increase the number of adults with the skills required for employability and progression to higher levels of training through:

- improving the basic skill levels of 2.25 million adults between 2001 and 2010, with a milestone of 1.5 million in 2007; and
- reducing by at least 40 per cent the number of adults in the workforce who lack level 2 or equivalent qualifications by 2010. Working towards this, 1 million adults in the workforce to achieve level 2 between 2003 and 2006.

The Government's Skills Strategy **3.38** In 2003 the Government published *21st Century Skills: Realising our Potential*, setting out its strategy to ensure that employers have access to a workforce with the right skills to support the success of their business, and that individuals have the skills they need to be both employable and personally fulfilled.¹⁴ In particular, the Strategy set out for all individual learners:

- a new guarantee of free tuition for a full level 2 qualification for any adult without one;
- financial support for higher level skills at technician, higher craft or associate professional level (level 3) in areas of regional or sectoral skill priority;
- trials of a new Adult Learning Grant, to test the impact of providing weekly financial support for adults studying full-time for their first full level 2 qualification and for young adults studying for their first level 3 qualification; and
- better information and advice on skills, training and qualifications.

3.39 The strategy set out for employers:

- greater choice and control over the publicly-funded training they receive and how it is delivered – looking to the evaluation of the Employer Training Pilots to inform the development of a national programme;¹⁵
- a new network of Sector Skills Councils to provide a voice for employers and employees in each major sector of the economy; and
- improved collaboration at regional level between Regional Development Agencies, the Sector Skills Councils, the Small Business Service, the Learning and Skills Council and Jobcentre Plus, to respond more effectively to local and regional skill needs.

¹⁴ *21st Century Skills: Realising our potential*, DfES (2003).

¹⁵ Chapter 4 sets out details of the new National Employer Training Programme.

Migration 3.40 Migration also has a role to play in improving the UK's skills mix. The Government runs a number of schemes to attract highly-skilled migrants to the UK, including the Highly-Skilled Migrants Programme (HSMP) – intended to attract migrants likely to make a highly positive contribution to average skill levels and productivity growth.

The supply side

3.41 While there is less of a case based on market failure for government funding directed at higher-level skills, government's role is to ensure that the right infrastructure is in place so that employers and individuals have information about and access to training at higher levels. As highlighted already, one of the UK's major weaknesses is at intermediate or level 3 qualifications. Although rates of return to those qualifications suggest that it is reasonable to expect learners and employers to make some contribution to the costs, one of the key areas in which government can play a role is to ensure an effective and responsive supply side that can deliver relevant and good quality training.

3.42 At the centre of the supply side delivery infrastructure is the Learning and Skills Council (LSC). This agency was set up in 2000, replacing the Further Education Funding Council and the 72 Training and Enterprise Councils, and bringing together into a single body the responsibility for planning and funding post-16 education and training. Its aim is to bring about greater participation and attainment in post-16 learning.

3.43 If demand for training is to increase it must be met by a supply side that can deliver high quality training that employers value. Encouraging results are beginning to emerge showing an increase in the success rates of all LSC-funded provision – from 59 per cent in 2000/2001 to 67 per cent in 2002/2003.^{16,17} The LSC has taken major steps to reform its structure and its operations, including the introduction of a new business cycle, with a clearer focus on priorities. Another important challenge is to make training providers more responsive to employers. Box 3.3 sets out more detail on the reform agenda for the FE sector. Employers are already signalling the need for industry-led learning within their sectors by seeking joint ventures to drive up workforce skill levels. For example, the Arcadia Group is proposing a public/private partnership between the retail industry and the Government to establish an 'academy' for fashion retail skills.

¹⁶ Success rates are the proportion of learners who successfully complete their course.

¹⁷ Statistical First Release 2004, LSC.

Box 3.3: Reforming the supply side

The Government is committed to improving the supply of skills to the economy. The Five Year Strategy published by the DfES in July 2004 set out the vision for an education and skills system to meet the needs of the 21st century. At the heart of this vision is a sector increasingly attuned to meeting learners' and employers' needs with consistently high quality services.

Recent evidence from the Employer Training Pilot evaluation (see Chapter 4) suggests that both employers and adult learners respond positively to greater flexibility in the delivery of training. Employers participating in the pilots have been able to choose appropriate training providers who can integrate training needs within the wider development of the company and deliver it on a timetable that fits with operational requirements.

The reform agenda builds on the Success for All reform programme, launched in November 2002, which has addressed standards and the pattern of delivery across the learning and skills sector.^a This strategy continues to address capacity issues within the sector through investment in teaching and learning and in the development of new minimum standards for all providers. The Learning and Skills Council (LSC) has led new arrangements to review the pattern of post-16 provision, encouraging specialisation and removing duplication. In each local area, local Learning and Skills Councils seek to address the quality and pattern of provision, so that training providers have the capacity, capability and flexibility to support key policy goals.

Since 1997, colleges and training providers have demonstrated significant improvements in standards of quality and effectiveness. Success rates across colleges have risen from 55 per cent in 1999/2000 to 68 per cent in 2002/2003 and inspection grades across the sector have also improved – with 88 per cent of colleges now achieving inspection grades of satisfactory or above.

The Government recognises that further education colleges will be key delivery agents in taking forward the Five Year Strategy reforms. Colleges cover some 5 million learners and account for around £5 billion of LSC funding. The Government has appointed Sir Andrew Foster, the current Head of the Bureaucracy Review Group for further education and training and Deputy Chairman of RBC Capital Markets, to take an independent look at the strategic positioning of the college sector in delivering the skills and learning the nation needs. He will aim to identify the distinctive contribution colleges make to the learning and skills market, their long-term contribution to economic development and social inclusion and what more needs to happen to transform the sector. It is envisaged that the Review Group will publish its report in autumn 2005.

^a Success For All: Reforming Further Education and training, DfES, (November 2002).

Regional Skills Partnerships

3.44 The Government's Skills Strategy noted the importance of ensuring that the supply of training better matches regional needs, in order to tackle regional skill disparities. The Skills Strategy announced the introduction of Regional Skills Partnerships (RSPs), co-ordinated by Regional Development Agencies (RDAs) and bringing together, as core partners, the LSC, Jobcentre Plus, the Sector Skills Development Agency and the Small Business Service. The Partnerships provide a mechanism for determining, region by region, the priorities for economic development and skills. Box 4.5 in Chapter 4 sets out how Regional Skills Partnerships will play a central role to bring together national, sectoral and regional skills priorities. By April 2005, each RSP will have published a prospectus setting out the partners' shared vision; what they will do to improve regional skills, enterprise and employment needs; how they will stimulate demand for skills; and how their impact will be measured.

3.45 The effectiveness of RSPs will be reinforced by closer links between RDAs and LSCs. The Government has already committed to consider proposals for further integration of planning and funding of adult skills and workforce development at the regional level, including the option of a 'dual key' approach to the management of adult skills budgets operated by the RDA Chief Executive and the Regional LSC Director. For each region, the RDA, the LSC and the RSP have also been asked to contribute to Budget 2005 with an update of progress in aligning regional priorities for adult skills provision.

Sector Skills Councils **3.46** Sector Skills Councils (SSCs) are at the heart of delivering the Government's Skills Strategy. These are employer-led networks, designed to identify and deliver the skills that employers need to raise productivity. Now that the network of Sector Skills Councils is nearing completion – there will be 25 SSCs licensed by the Government by summer 2005 – it will be possible to articulate the future skill needs of each industry in a clear and consistent way and to set skills priorities which are at the heart of driving productivity improvement and modernisation across the public and the private sectors. Each Council will work to produce a Sector Skills Agreement (SSA) setting out their collective priorities for action on both supply and demand. The network of SSCs are core members of Regional Skills Partnerships. See Annex A for a list of the 25 Sector Skills Councils.

3.47 Four Sector Skills Councils, e-skills (IT sector), Construction Skills, Skillset (audio visual industries) and SEMTA (engineering, manufacturing and technology), are nearing the completion of a Sector Skills Agreement for their industry. These Agreements look over a five to ten year horizon at the skills required to support the future productivity and competitiveness of the industry and represent a public commitment by industry and the Government to shared investment in high quality, responsive skills supply to meet priority skills needs. Sector Skills Agreements place an expectation on each industry to develop, invest in, and drive forward a strategic skills plan, including the development of new qualifications and services to meet the needs of specific industries.

Box 3.4: Examples of progress in Sector Skills Agreements (SSAs)

In the IT sector there is strong interest in partnership with higher education to develop specialist, business-relevant courses, to develop new work-based learning opportunities and steps to help all individuals and industries exploit the full potential of IT.

The engineering sector is seeing a powerful focus on lean manufacturing and business process re-engineering, with an increased demand for technician and technologist (level 3 and level 4) skills through the engineering supply chain.

Through the SSA being negotiated by Skillset, industry consultation is taking place on the scope for a new statutory training levy on film production and the opportunity to build co-regulatory arrangements with OFCOM to include skills development as a key licensing requirement for broadcasters.

In the construction sector there are ambitious plans that include qualifying the workforce (to a minimum level 2), boosting Apprenticeship numbers, and for industry to collaborate through supply chains and major construction projects to support skills development and raise the quality of building services.

Trade Unions 3.48 One of the most significant developments of recent years has been the new role of trade unions and their Union Learning Representatives in promoting learning and skills in the workplace. The Government has provided trade unions with financial support under the Union Learning Fund since 1998, and there are now more than 7,500 Union Learning Representatives active across the country. Backed by new statutory rights, introduced in April 2003, there could be as many as 22,000 in place by 2010, helping over 250,000 workers a year with their training and development needs.

Ensuring qualifications meet business needs 3.49 Integral to the Government's Skills Strategy is reform of vocational qualifications, in recognition that the qualifications on offer must engage and interest individuals in learning as well as meet the needs of business. The Qualifications and Curriculum Agency (QCA) launched a consultation on qualifications reform in November 2004 to develop a qualifications framework that is responsive to employer needs. The QCA is proposing an inclusive credit-based qualifications framework that will be responsive to employer and sector needs. The reformed system will aim to support greater individual progression and recognise achievement in formal and informal learning. Implementation of the framework will require active piloting in areas already investigated so that the sustained impact of the credit system and the framework can be evaluated.

3.50 Foundation Degrees have been a further development in qualifications to help meet the needs of employers more closely. The involvement of employers in their design and delivery is a defining characteristic, with a core role for work-based learning. Box 3.5 discusses the role of Foundation Degrees in more detail.

Box 3.5: Foundation Degrees

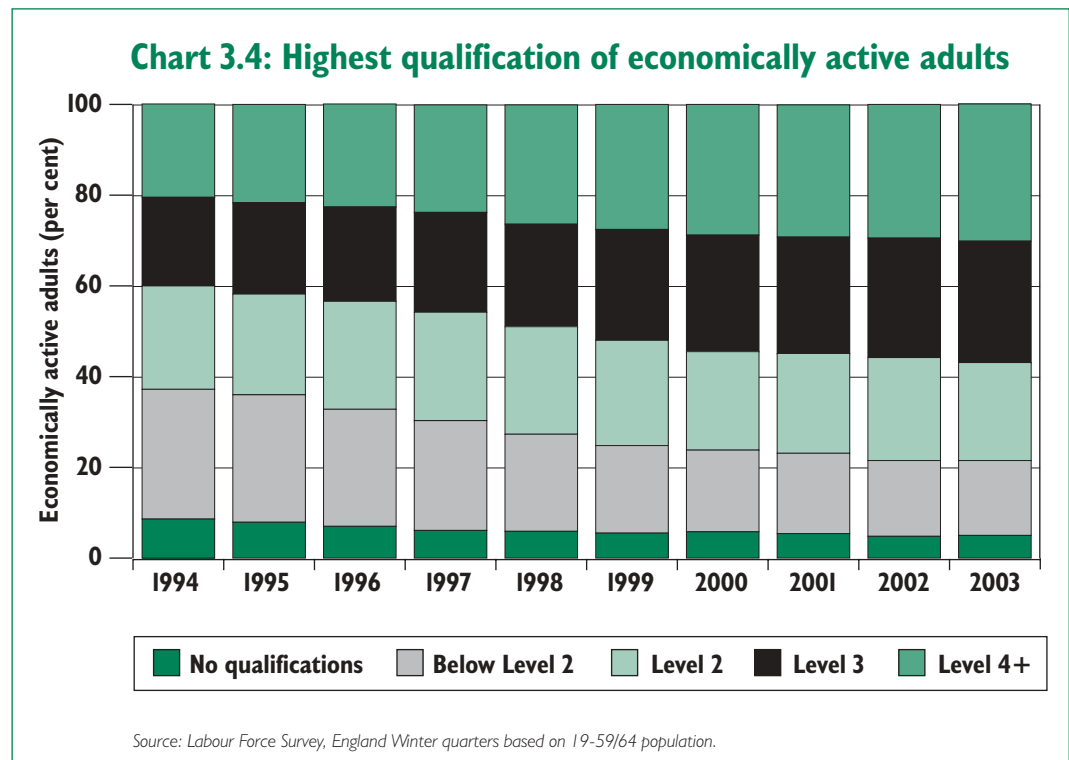
Foundation Degrees were introduced in September 2001 to help a wide range of people gain skills and knowledge that are needed in the public and private sectors. They are higher education qualifications leading to a qualification typically after two years, but with the opportunity, after further study, to gain a full honours degree. The courses are designed and developed with employers and provide students with the skills and knowledge employers are looking for, combining academic study with work-based and work-related learning.

Regional Development Agencies and Sector Skills Councils have been encouraged to work with universities and colleges in identifying areas of skill shortage. This has led to a wide range of courses being developed. From just over 4,000 students on Foundation Degrees in 2001/2002, the intention is to have 50,000 places by 2005/2006.

The Department for Education and Skills set up a Taskforce to advise the Government on how to implement its strategy on Foundation Degrees. The Taskforce has now reported and the Government has asked The Higher Education Funding Council for England (HEFCE) to look at how it can respond to the Taskforce's recommendations.

Progress in improving adult skills

3.51 Good progress has been made on the Government's PSA targets. The Government is on track for 750,000 adults to have improved their basic skills by the end of 2004. By winter 2003 the number of economically active adults in England without at least a level 2 qualification had fallen to 6.7 million. This is a reduction of 434,000 compared to autumn 2001, or a 6.1 percentage point contribution towards the target of 40 per cent reduction by 2010. Chart 3.4 below shows changes in the skills of adults within the workforce.



3.52 While the skills profile in England has improved in recent years, as Chapter 2 sets out, economies worldwide are also becoming more skilled, and England is starting from a relatively low base. Even meeting the 2010 PSA target to improve the number of workers with level 2 skills, England is likely to lag behind the best performing countries internationally on its stock of low-skilled adults. So, while focusing on current ambitions is important, it is also necessary to remember that these may just be the first step towards long-term change. If the country is to meet the global challenges of international competition, accelerating technological change and changing patterns of consumer demand, then not only will every adult need to be equipped with a basic level of skills, but every adult will need to constantly improve and update their skills throughout their working lives.

NEXT STEPS

3.53 The Government has already set out an ambitious agenda to improve the flow of skills into the workforce and tackle the UK's stock of unskilled workers. Despite the progress made, the UK still has a large stock of low-skilled adult workers. As a first step in tackling this issue it is essential that everyone has a minimum platform of skills on which to build. Chapter 4 sets out the further measures that the Government will take in order to ensure that every adult can access the skills that they need.

4

SUPPORTING ADULTS TO TRAIN

4.1 The Government's Skills Strategy, published in 2003, set out how the Government intends to deliver its ambition to reduce the stock of adults with low or no skills, in partnership with individuals and employers.¹ The Government wants to ensure that every adult has the opportunity to acquire skills and improve them throughout their working life, as a route to more sustainable and better-paid employment.

4.2 This chapter sets out the Government's further plans to realise these ambitions. The New Deal for Skills will support even more adults who are out of work to take up opportunities for free training, as a route to sustainable employment and further progression. The new National Employer Training Programme will ensure that low-skilled adults who are in work can access support for training and progress to higher skill levels, and that employers can improve the skills of their workforce and so raise their productivity.

SKILLS STRATEGY

4.3 Chapter 3 set out the goal of the Government's Skills Strategy to ensure that employers have access to a workforce with the right skills to support the success of their business, and that individuals have the skills they need to be both employable and personally fulfilled. Central to the Strategy is a new guarantee of free tuition for a level 2 qualification for any adult without one (explained in Box 4.1).

Box 4.1: The entitlement to free tuition to gain a first full level 2 qualification

The Skills Strategy set out a new level 2 skills entitlement. This entitlement gives every adult in England who has not already gained a full level 2 qualification (equivalent to 5 good GCSEs) the opportunity to receive free tuition for a qualification at this level. This is a key part of the Government's strategy to tackle the stock of low-skilled workers and encourage progression to higher skills.

As a first step this approach was introduced from August 2004 in the North East and South East regions. In these two regions the level 2 entitlement is part of a linked package of support including enhanced information and advice. An Adult Learning Grant is also being offered in these two regions to trial a weekly allowance of up to £30 for a maximum of two years for adults on low incomes studying full-time to gain their first full level 2 qualification, and for young people (up to the age of 30) who are learning to achieve their first level 3 qualification.

The level 2 entitlement will be rolled out nationally as part of full implementation of the Skills Strategy from 2006-2007 onwards. The Government wants to ensure that every eligible adult has access to this entitlement either by enrolling on an individual basis at college or through training in the workplace.

4.4 The Government wants to ensure that, over time, all adults have an opportunity to access the measures set out in the Skills Strategy, in particular to take up their entitlement to free training. The rest of this chapter sets out the Government's further plans for achieving this for those in and out of work.

¹ *21st Century Skills: Realising our potential*, DfES (2003).

THE NEW DEAL FOR SKILLS

4.5 Budget 2004 announced the New Deal for Skills. This is a package of measures to help people move from welfare into sustainable, productive work and help adults in employment progress from low to higher-skilled work. These measures complement the New Deal programmes that assist adults making the transition into employment.

4.6 Evidence shows that the most effective Welfare to Work programmes have a central focus on employment but can also offer a mix of job search, education, training and other services.² Programmes in the UK – including the New Deal and Work-Based Learning for Adults – have therefore been designed to incorporate mainly short-term training alongside job search support and work experience.

4.7 Although the primary aim of these programmes is to get participants into work, it is important that the system develops to further support training towards qualifications where doing so will best support achievement of sustainable, productive employment. In particular, where a lack of skills is a key barrier to getting and staying in a job, it is essential that people are given the opportunity to train and that this can be continued when they make the transition from welfare to work.

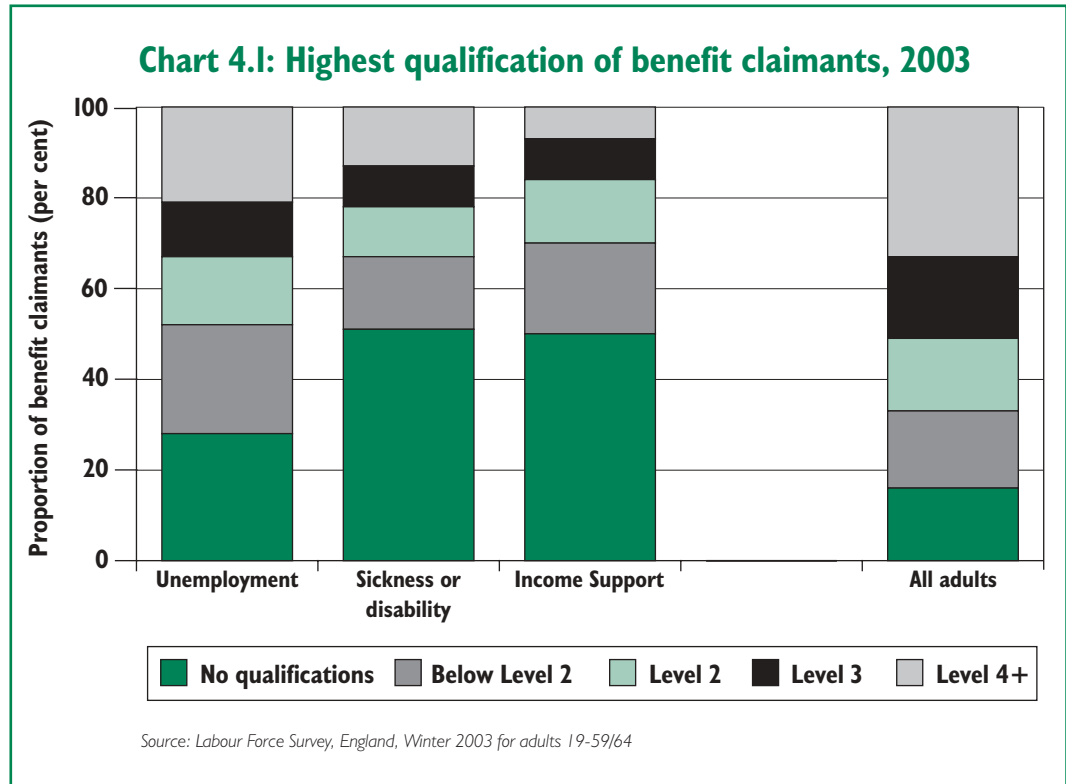
Training for adults in receipt of benefits

Skills as a barrier to work

4.8 Although adults with low skills are least likely to be in work, many people with low skills do have a job. Data for 2003-2004 shows that about 6.2 million adults in work are not qualified to level 2 and about 2.6 million adults in work do not have level 1 literacy skills.³ However the unskilled and low skilled are far more likely to be workless. Chart 4.1 sets out the qualifications profile of benefit claimants. Nearly seven out of ten economically inactive benefit claimants and half of the unemployed do not have qualifications equivalent to level 2, compared to the national average of just over three out of ten adults.

²After AFDC: *Welfare to work choices and challenges for states*, Bloom, Manpower Demonstration Research Project (1997); *Welfare to work programmes: The critical role of skills*, Strawn and Echols, Centre for Law and Social Policy (1999).

³Equivalent to an English GCSE grades D-G.



4.9 In 2002/2003 approximately 370,000 benefit claimants were enrolled in further education college courses – 70,000 of whom were studying full-time. However, at the moment Jobcentre Plus Personal Advisors do not have a mandate to ensure that this training is at an appropriate level or that the course will improve employability. Of benefit claimants who are in Learning and Skills Council-funded learning, only a small proportion are studying for a full level 2 qualification – in 2002-2003 only about 6,500 achieved a full level 2. For many, there is a risk that the training they do is then disrupted on making the transition into work. The Government recognises the need to provide better support to benefit claimants, and secure better value from public funds by improving the alignment between full-time training and employment prospects. It is also important to ensure that training can be continued on the return to work.

4.10 Qualitative evidence suggests that the decision of more than one in ten adults with no qualifications not to continue learning is (at least in part) attributable to their fear of having their benefits cut.⁴ Current benefit rules for jobseekers encourage job search rather than training as a first step, through ensuring no more than 16 hours a week can be spent in ‘guided learning’. There is also a lack of high quality personal support to help those out of employment engage in relevant training to improve employability. As a result of this, some adults for whom a lack of skills is their primary barrier to sustained employment may not currently be able to improve their employment prospects by accessing appropriate training such as their entitlement to free training for their first full level 2 qualification.

4.11 The Government wants to ensure that in the future the Welfare to Work and skills agendas are better aligned, an issue highlighted by the National Employment Panel (NEP) report *Welfare to Workforce Development*.⁵ The NEP recommended that the Government consider the constraints that benefit rules impose on learners. In particular, the Panel recommended that the requisite financial support be put in place to encourage individuals on benefit – particularly lone parents and disabled people – to take up training as a route back to work.

⁴National Adult Learning Survey, National Centre for Social Research (2002).

⁵Welfare to workforce development, National Employment Panel (2004).

Box 4.2: Collaboration between Jobcentre Plus and the Learning and Skills Council

A key recommendation of the National Employment Panel report, *Welfare to Workforce Development*, was that Learning and Skills Councils and Jobcentre Plus should agree joint local delivery plans in order to support key employment and skills priorities. This approach is now well established across the country and includes collaboration with other partners such as Business Links, information and advice networks, colleges, Local Authorities and the business community. Examples of how these joint delivery plans are being implemented include:

- Jobcentre Plus promoting Apprenticeship opportunities;
- Employer Training Pilots improving access to learning during employment and targeting support on under-represented groups; and
- the availability of LSC funding to allow jobless adults to continue their learning when they move into work.

Improving access to training

A learning allowance

4.12 Evidence shows that for most people the best way of finding and keeping work is to look for work, rather than focusing solely on training. However, the evidence is less clear in relation to adults with particularly poor skill levels, or those who experience other barriers to work. As set out above, there are a number of barriers that currently prevent these individuals from accessing training. Therefore the Government believes that there is a case for introducing more flexibility for Jobcentre Plus Personal Advisers to allow the longer-term unemployed to access full-time training, where this would both improve their chances of moving into sustained, productive employment and where local employers have identified specific needs. This would also allow Personal Advisers to influence the type of training undertaken to ensure that it is focused on improving employability.

4.13 The Government wants to make better use of participation by benefit claimants in learning and training activity, as well as increase support for those most in need of training to improve their skills. Therefore, it is necessary for Jobcentre Plus Personal Advisers, working with information and advice networks and new skills coaches (see paragraph 4.18), to better distinguish between clients who already have the skills necessary to get jobs and those who need to develop skills in order to move into sustainable employment.

4.14 From April 2006, the Government will therefore pilot the approach of allowing benefit claimants currently on Jobseeker's Allowance along with those on Income Support and Incapacity Benefit, with the agreement of their Personal Adviser, to take up free, full-time training, where this is judged by their Personal Advisor as the best way of helping them into work. Individuals will still receive the same level of benefit and an additional £10 weekly benefit supplement to cover the extra costs of learning. They will also receive additional information and advice on training options. Receipt of this support will be dependent on the participant meeting the conditions of a learning agreement covering attendance and participation, agreed with their Personal Adviser.

4.15 This allowance is designed to provide more effective support to those who most need to gain skills to boost their prospects of sustainable, productive employment, while giving Personal Advisers tight control over training to ensure that it is focussed on specific jobs – either through their knowledge of the entry requirements for forthcoming vacancies or by restricting full-time training to courses identified by employers as priorities (for example through Sector Skills Councils). At the same time, for those on Jobseeker's Allowance who do not have a learning agreement in place, the benefit rules will be strengthened to ensure that learning is genuinely part-time and does not interfere with jobsearch activity. The pilots will

test the effect of this increased access to full-time training on take-up of learning opportunities and successful completion of courses. The pilots will also identify the clients most likely to benefit from training and the most effective way to support them, for example through the use of learning agreements.

Personalised support for people who want to train

4.16 Not all barriers to learning are financial. For many individuals, good information, motivation and confidence are also important. There is a clear link between the effective provision of information and advice, and learning and skills, with 94 percent of taught learners receiving information and advice that has helped them to decide to do a course. A fifth of adults who are not learning say that advice would encourage them to do so, increasing to a quarter of adults who are dependent on benefits.⁶

4.17 Three out of ten adults with no qualifications say that they do not know about local learning opportunities.⁷ Adults with no qualifications are also least likely to use the internet and most likely to turn to their Jobcentre Plus Personal Advisor for information. Through the New Deal for Skills the Government will provide low-skilled adults with the help that they need to make the right choices about their learning and skills development.

Skills coaches 4.18 In order to ensure that adults with low skills can access the skills advice and support that they require, the Government announced in Budget 2004 that a more integrated skills service would be offered in Jobcentre Plus offices. By providing one-to-one tailored support, new skills coaches will help adults to develop employment-related learning goals, and to participate successfully in learning to improve their chances of sustained employment.

4.19 Skills coaching will be a service providing flexible support to adults of working age for whom lack of skills is the main barrier to sustained employment. The support will be tailored to the needs of the individual, and will focus on the most effective routes to improved employability. Skills coaching will complement the work of Jobcentre Plus, and will be delivered through local Learning and Skills Councils' information and advice providers following referral from Jobcentre Plus Advisors. The core services of skills coaching will be:

- an initial interview;
- skills assessment and diagnosis of major skills needs;
- access to a network of information and advice services;
- identification of appropriate training provision to meet skills needs;
- continued help and advice while in learning;
- an interview to follow up training and complete a skills passport; and
- continued help and advice while in work.

4.20 From April 2005, a skills coaching service for jobless people will be piloted in eight Jobcentre Plus districts. The service will mainly focus on people without a first full level 2 qualification, but there will be local discretion to allow other priority customers to access the service. Skills coaches will work closely with Jobcentre Plus Personal Advisers to provide the co-ordinated support individuals need to improve their skills and get into work.

⁶ *National Adult Learning Survey*, National Centre for Social Research (2002).

⁷ *National Adult Learning Survey*, National Centre for Social Research (2002).

4.21 In the pilots, Personal Advisors will refer low skilled individuals to skills coaches and individuals may also be able to request referral to these services. Skills coaches will ensure that full-time learning undertaken while in receipt of the learning allowance discussed above helps to develop those skills that will best raise individuals' job prospects. For individuals who successfully move into work, skills coaches will continue to provide help and support to encourage appropriate training, for example through the new National Employer Training Programme set out in more detail in Box 4.4.

4.22 This development will not only make current information and advice services more accessible but also significantly enhance the service offered to the least skilled adults as they make the transition into work. An evaluation of this first phase of introduction will inform a decision on national roll-out of this service. In particular, an assessment will be made of the demand for this service, the use of self-referral and the impact of skills coaches on learner achievement and completion rates.

Recording achievements

4.23 Skills passports provide individuals with a simple, portable way of recording the skills and competencies that they acquire, in different jobs over time. The Government's intention is to promote the use of skills passports to benefit claimants. Skills coaches can also use them as a basis for drawing up an agreed action plan for individuals' development of skills towards their chosen career. Skills passports will therefore be introduced simultaneously in areas where there are skills coaches. Passports will allow learners to compile evidence of their training and skills, including informal learning, and provide a permanent, validated record of their achievements. Working with various sectors, Jobcentre Plus and the Learning and Skills Council will develop a range of aligned passports to maximise ease of transition between sectors for the individual. Skills passports will also include easily understandable 'reminders' of individuals' entitlements including those that support progression to higher skills.

Career progression

4.24 The New Deal for Skills also aims to give people the opportunity to progress in their careers. There is strong evidence that the acquisition of skills is necessary for career progression, but, on its own, skills development is sometimes insufficient and a number of other possible barriers exist, such as lack of confidence.

4.25 The Government's Employment Retention and Advancement Demonstration (ERAD) pilots are currently testing the effectiveness of a range of in-work support including:

- financial incentives – staged financial payments to encourage clients to remain in the workplace during the first two years of employment; and
- support from advisors – pre-employment advice and in-work adviser support to assist retention and advancement in the work place over a 33 month period.

4.26 New Deal for Skills policies will complement any interventions to aid progression informed by a successful evaluation of ERAD.

4.27 It is also vital that there are clear incentives and pathways for individuals to move up the skills ladder, moving beyond the platform for employability that a level 2 qualification represents. An extensive range of subsidised level 3 programmes for young people and adults is already available in further education colleges, together with Advanced Apprenticeships at level 3 available through work-based training. To develop level 3 opportunities further, in the trials of the level 2 entitlement in the North East and South East, people wanting to train in skills priority areas and able to progress straight to a level 3 qualification are encouraged to do so. And in the trial areas, the new Adult Learning Grant provides help with the costs of learning for young adults lacking a first level 3 qualification and studying full-time for one.

SUPPORTING EMPLOYERS TO TRAIN

4.28 A key element of the Government's Skills Strategy is the commitment to introduce a demand-led approach to developing skills in the labour market. This means employers should be able to access training provision in a way that both suits their operational needs and the needs of their employees. In focusing public investment in skills the Government wants to ensure that employers are supported to offer individuals training in basic skills or a first full level 2 qualification in the workplace, as a way of accessing their level 2 entitlement. The Government also wants to ensure that employers and employees are encouraged to progress from this platform to higher skills.

4.29 Many businesses make substantial investments in skills but low-skilled employees often miss out. For employers, and especially small employers, paying for training and allowing employees to take time off to train can place significant strain on their business. While the Government cannot take on the whole responsibility for meeting the skills needs of business, it can improve the effectiveness of its contributions, by focusing public investment where there is market failure, to reduce substantially the numbers of people in the labour market without a minimum platform of skills. It can also work in partnership with employers to ensure that the education and training supply side is able to respond rapidly and effectively to meeting their skills needs, and can provide even greater value and an effective return on their investment.

Employer Training Pilots (ETPs)

4.30 *Developing Workforce Skills: Piloting a new approach*⁸ set out the Government's plans for new pilots to engage employers and their low-skilled employees in training. Initial evaluation work to design the pilots found that the obstacles to training cited most by employers were: disruptions to work patterns, financial costs, lack of knowledge of provision, reluctance of employees to train and lack of suitable provision. 60 per cent said that increased flexibility in the delivery of training would encourage more training of staff.

4.31 From September 2002, the pilots have provided a package of training and support designed specifically to meet these employer needs and to explore the impact on the demand for training. In the pilots, this support has been focused specifically on working with employers to enable their low-skilled employees to gain basic skills or their first level 2 qualification. The pilots have offered:

- free or heavily subsidised training delivered in a way that most suits the employer's business;
- free information, advice and guidance for learners and employers, including identifying their skill needs;
- paid time off for employees to train (for either 35 or 70 hours depending on the pilot area); and
- support for employers to meet the costs of giving staff paid time off to train ('wage compensation' – depending on the size of the company and which pilot area they are in).

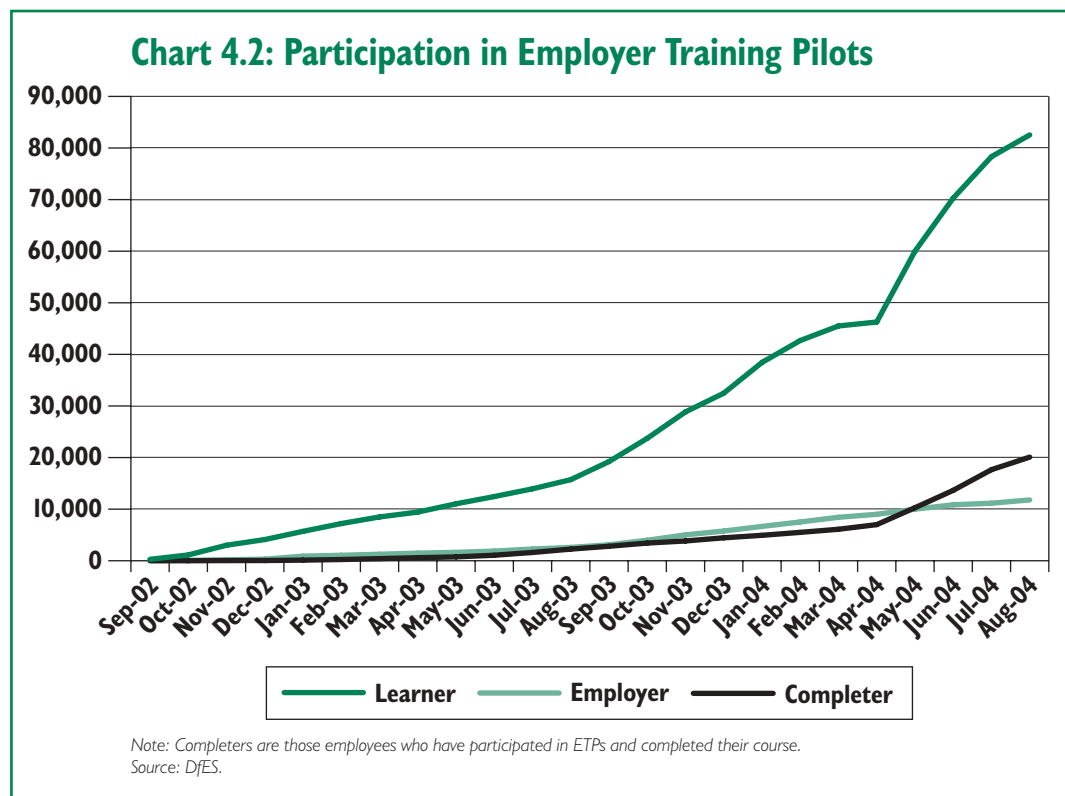
⁸ *Developing Workforce Skills: Piloting a new approach*, HM Treasury and DfES (2002).

4.32 A key element in the set-up of the pilots has been the enhancement of local business support services through the introduction of specialist skills brokers (usually Business Links or the local Learning and Skills Council, but in some cases private firms). These brokers market the pilot training scheme directly to employers and help in assessing their skills needs and the needs of their employees. In the light of that assessment, brokers work with training providers to secure the relevant, responsive, flexible and high quality training provision that employers need.

4.33 On the basis of their initial success the pilots have been expanded and extended, so that they are now in their third year and cover over one-third of the country. The first year evaluation of the pilots was published in November 2003.⁹ The second year evaluation of the pilots will be published in January 2005 and will be followed by further and more detailed analytical reports.

Evaluation results

4.34 Early results from the second year evaluation of the pilots are very promising. Chart 4.2 below shows take-up and completion rates over the life of the current pilots. At the end of August 2004 there were nearly 12,000 employers and over 80,000 learners engaged in training through the pilots. There are now around 750 employers and 4,000 learners joining the pilots each month and these numbers are rising as the third wave of pilots, which became operational in September 2004, build their capacity.



Characteristics of participants

4.35 In particular, the pilots aim to engage with employers or employees who do not usually participate in qualifications-based training. The evidence set out in Box 4.3 shows that ETPs are reaching their target groups.

⁹ *Employer Training Pilots – First Year Evaluation Report*, Jim Hillage and Hannah Mitchell, Institute for Employment Studies (November 2003).

Box 4.3: Participants in Employer Training Pilots (ETPs)

The pilots are reaching those in the workforce who are low-skilled and low-paid. Most learners participating in ETPs left school at or before the age of 16 and half have no previous qualifications at all. 90 per cent of ETP learners are studying for a level 2 qualification and 10 per cent are studying basic skills. The average wage of an ETP learner is £6.25 per hour.

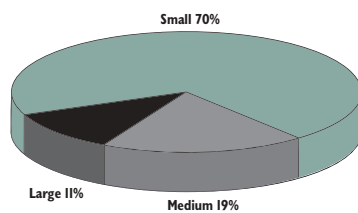
ETPs are also reaching out to a diverse range of workers with different working patterns. Almost 80 per cent of ETP learners are aged over 25, over half of learners are female and 11 per cent are from ethnic minority backgrounds. A quarter of learners work part-time.

The pilots are successfully reaching a wide range of employers, in a range of sectors, including a high proportion of small and medium-sized businesses, shown in Chart 4.3 and Chart 4.4. The vast majority (88 per cent) of ETP employers are from the private sector and 12 per cent are from the public sector, voluntary and not-for-profit sectors.

Around one in seven (14 per cent) of employers are also classified as “hard to reach”: they have had no previous contact with either business support agencies (Business Link, Learning and Skills Council) or training providers, or any involvement in national workforce development and training initiatives, such as Investors in People or National Vocational Qualifications. A further 54 per cent of employers had experienced some contact with either business support agencies, training providers or skills and training initiatives, but not all three.

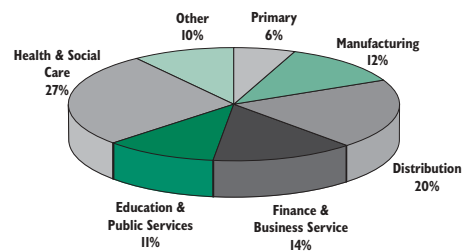
In each workplace involved in the pilots there is an average of around seven employees taking part. Evidence from the pilots shows that learning is taking place around normal working patterns. The pilots have tested giving employees paid time to train (for 35 or 70 hours depending on the pilot area) and most pilots have financially compensated employers for this. Evaluation so far suggests it takes an average 100 hours for a learner to complete a level 2 qualification. Roughly half of this time is spent in contact with the training provider, a quarter in independent learning, usually in the workplace, and a quarter outside working hours, usually unpaid. The data suggest that the pilots’ approach has the potential to address one of the key barriers to training: flexibility of delivery with an emphasis on training in the workplace is less disruptive to normal working patterns and the operational needs of the business.

Chart 4.3: Employer participation in ETPs by size



Note: small: 0-49 employees; medium: 50-249 employees; large: 250+ employees
Source: DJES.

Chart 4.4: Employer participation in ETPs by sector



Source: DJES.

Survey evidence 4.36 The second year evaluation has also carried out extensive surveys of employers and learners, to identify which parts of the scheme are most attractive to them, how the training has benefited them, and how the pilots have influenced their views about the value of future training.

4.37 Components of the pilot that were reported by employers as being most attractive were free or subsidised training (cited by 88 per cent of employers), flexibly delivered training (cited by 76 per cent of employers), and free information, advice and guidance (cited by 67 per cent of employers). When asked what was the single most important component of the offer, the highest proportion of employers (43 per cent) rated free or subsidised training.

4.38 The pilots have also tested the impact of financially compensating employers for the paid time employees take off work to train – ‘wage compensation’. This was intended to enable employers to use the compensation to, for example, employ a temporary replacement for the learner. The early evidence of the value of this element of the package to employers is more mixed. Nearly 60 per cent of employers cited this as one attractive element of the pilot but only 10 per cent of employers rated it as the single most important part of the package.

4.39 Gaining qualifications through the pilots has helped individuals to recognise and accredit skills already held and helped them to identify and learn new skills. Most employees taking part think their ETP training is relevant to their job and 67 per cent felt it would help them to do their job better. Moreover, the pilots appear to encourage learners to pursue further training. After taking part in the pilots, 71 per cent of learners say they aim to do more learning in the next two to three years and 55 per cent of these say they will aim for a level 3 qualification or above.

4.40 Importantly, the pilots also appear to have an impact on employers’ views of the value of training and their likelihood of future training. 76 per cent of employers said they were now more likely to train their staff, 71 per cent were now more convinced that such training can benefit the business and 85 per cent were more positive about helping employees to gain qualifications.

Conclusions 4.41 These exciting and innovative pilots have brought important lessons. Only 4 per cent of learners expressed any dissatisfaction with their experience so far, and 93 per cent of employers are satisfied with ETPs overall. The impressive level of take-up by employers and employees, linked with high levels of satisfaction, shows that within the pilot model there is a basis for an effective approach to unlocking the demand for skills in the workplace. Moreover, the pilots have shown that this sort of skills programme can reach employers and employees who do not normally get involved in training. The pilots have also positively influenced employers’ and learners’ views about the value and importance of future training. Importantly, this signals that where government provides this ‘minimum platform’ of training, it can encourage employers and learners to continue to train at higher levels.

4.42 Some elements of the package do require further development. For example, although the overall proportion of employees dropping out after starting their training has remained low, the numbers completing their training in reasonable time and achieving a qualification needs to be higher in a national programme. Completion rates for the earliest starters (September to November 2002) in some of the original pilot areas are approaching 70 per cent, well above the average of 55 per cent for adults taking equivalent level 2 courses within further education colleges outside of the pilots, but average completion rates across all pilots vary greatly between and within sectors and localities.

4.43 In the third year of the pilots this issue is being tackled through outcome-focused contracting and payment arrangements with providers and employers. Together with development projects focused on improving the initial assessment of employees' training needs, and improving the capacity of tutors and assessors to support learners more effectively in the workplace, these changes will make further improvements that can be taken on in a national programme.

A NATIONAL EMPLOYER TRAINING PROGRAMME

4.44 **The Government will now apply lessons learned from the Employer Training Pilots to the new National Employer Training Programme (NETP).** The Government wants all employers to have access to the support they need to increase the skills of their workforce, providing opportunities for personal progression and improving firms' productivity. The rest of this section sets out the Government's plans to roll out a national scheme that will give all employers the opportunity to access publicly funded support to train their low-skilled workers and the training provision they need to make the most of their investment in skills. **The Government will begin to roll out this national programme across the country from 2006-2007, with completed national roll-out in 2007-2008.**

4.45 The Government believes that, although voluntary approaches have secured increased participation in workplace training in the past, much more progress still needs to be made. One of the key issues Employer Training Pilots have tested is the propensity of employers to allow their employees paid time to train within working hours, in return for free and flexibly-delivered training.

4.46 Building on the key lessons learned from the Employer Training Pilots, the Government is committed to continuing this partnership approach. Within a national programme the Government is willing to offer free training where there is a market failure, namely for low-skilled employees who lack basic skills or a level 2 qualification. In return, the Government expects employers and individuals to recognise their respective responsibilities to engage with this training. To move to a high-skill, high productivity economy requires everyone to play their part – Government, employers and individuals. In particular there is an important role for Sector Skills Councils in encouraging collective action by employers to identify and act on the skills needed to support higher productivity.

Brokerage 4.47 One of the key lessons from the Employer Training Pilots has been the importance of business support networks, with skilled and knowledgeable brokers. The role of brokers is to work with employers and employees to identify their skills needs and to source the right training and the right providers to meet their needs, within the wider business context. The Government believes that effective business support networks, capable of delivering a professional brokerage service, must lie at the heart of a national programme. This brokerage service will advise firms about all levels of training, not just basic skills and level 2. At higher skill levels where firms may pay the full cost of training, brokers can offer advice and help to source the right training. The brokerage service will also help companies to link their investment in skills and training to their overall business performance.

4.48 To achieve the greatest impact with employers, particularly the hardest to reach and those with employees with the greatest skill needs, this brokerage service will need to operate effectively at several levels: national, regional, sectoral and local. The Government will not mandate who the brokers should be in each region and local area. It will be up to the Learning and Skills Councils to decide what is best for their area, working with Regional Development Agencies and other regional partners to ensure better integration of employer training brokerage with the range of existing business support services. Brokers will need to work increasingly in strategic partnership with Sector Skills Councils as they develop their Sector Skills Agreements, articulating the clear requirements of employers in meeting their current and future skills needs. The Government believes strongly that brokers should offer employers advice suited to the particular needs of their business and their employees – this can only be achieved by a brokerage network that is independent and impartial.

Government funding **4.49** **The Government will now guarantee that, as part of the national programme, where employers are prepared to offer their low-skilled employees paid time to train up to level 2, the costs of this training will be fully subsidised.** The funding rates payable under the national programme will be set in the light of experience from the pilots and reviewed over time to get best value while sustaining high quality outcomes for employers and their employees. Brokers will advise about the right type of training and source training that is delivered to best suit employers' need for high quality training, flexibly delivered in the workplace.

4.50 It is important that employees have sufficient time to undertake and complete their training successfully in relation to their chosen qualifications. That is why access to a limited amount of paid time off to train has been an integral part of the Employer Training Pilots for participating trainees and this will continue to apply in firms that choose to participate in the national programme. Based on further evidence from the pilots, the Government will draw up guidance for brokers to use, setting out the expectations of the time needed for successful completion of flexible training. Consistent with the practice in the existing pilots this will include a minimum requirement of paid time to train. Box 4.4 below summarises the key features of this new national programme.

Box 4.4: A National Employer Training Programme

The main features of this new programme will be:

- a brokerage service for employers, linked to a reformed business support service, with independent brokers responsible to and funded through the Learning and Skills Council. Brokers will act for employers to assess their training needs, design integrated training packages, and source training provision;
- a “core offer” to employers willing to give their employees paid time to train, of free, high quality training for their employees who lack basic skills and/or a first full level 2 qualification;
- support from the broker to design and source a wider training package at level 3 and higher, and for non-qualifications based training, to deliver high quality and value for money for those employers who want to invest further in the skills of their workforce;
- relevant, flexible, high quality training provision in the workplace, where employers want that, to suit operational needs; and
- advice on the most appropriate training provision and qualifications, agreed by employers through their Sector Skills Councils as the most relevant to meeting current and future skills needs within their sectors, and set out in Sector Skills Agreements.

4.51 The evidence on the impact of wage compensation is mixed, but early evidence suggests that wage compensation may be more important initially to engage those employers who would not usually provide training. The Government will continue to consider this issue and look to further evaluation before making a final decision on the inclusion of wage compensation within the national programme.

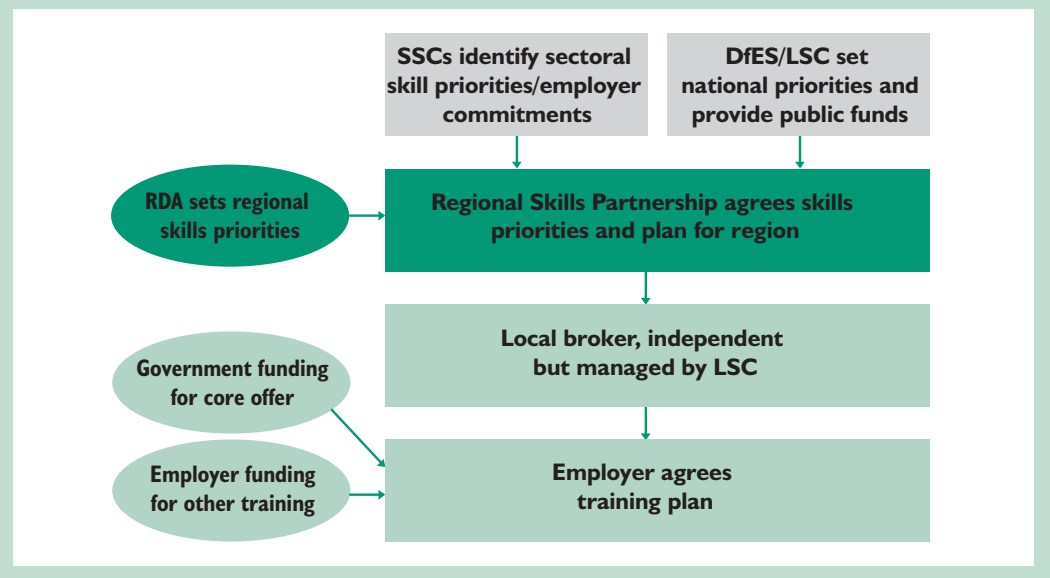
Support for progression **4.52** The Government also recognises the importance of encouraging progression for individuals, with the support of their employers, to train to higher levels. The Government believes that level 2 skills are not necessarily an end in themselves but an important platform for personal fulfilment, sustainable employment and further progression to intermediate skills. Intermediate skills are frequently cited as an area where employers currently see the greatest skills gaps. As Chapter 2 sets out, intermediate skills are increasingly important for the UK to be able to adapt to and manage the pace of global change.

4.53 The Government therefore wants to ensure that individuals can progress to level 3 and level 4 skills and are supported by employers in their efforts to train at this level. The case for government subsidy at these levels, as set out in Chapter 3, is weaker because of the higher rates of return to individuals and their employers from such qualifications. However there is evidence that a large proportion of adults in the workforce without a level 2 qualification are capable of training straight to level 3, with early lessons from the level 2 entitlement suggesting this proportion may be as high as 40 per cent.

4.54 Where individuals without a first level 2 qualification are capable of jumping straight to learning at level 3, the Government wishes to support that. It will therefore commit to including those individuals within the scope of the level 2 entitlement. That means it will provide the same level of guaranteed funding for individuals without a first level 2 qualification who wish to train straight to their first level 3 qualification as provided for those training to level 2.

4.55 The Skills Strategy also set out the Government's commitment to supporting training at level 3 in areas of regional or sectoral priority, where there is evidence of market failure. Regional Skills Partnerships and Sector Skills Councils will continue to identify these areas. One of the roles of brokers within the national programme will be to advise employers on the support available locally for training to level 3 and level 4, and how they can best access it. This could mean that brokers refer employers to locally available training delivered in further education colleges, or source level 3 training for the employer as part of a bespoke training package.

Sector Skills Councils **4.56** Sector Skills Councils are at the heart of the delivery of this new National Employer Training Programme. As set out in Chapter 3, Sector Skills Agreements are the means by which the industry will articulate, and help deliver, the specific skills that individuals will need, sector by sector. The Government has asked all Sector Skills Councils to develop Sector Skills Agreements, and the first four are nearing completion. The Government is committed to ensuring that the priorities emerging from these first Agreements are reflected in Regional Skills Partnerships and local Learning and Skills Council plans, feeding through into the advice and support provided by brokers in each local area. Box 4.5 sets out how national, sectoral and regional priorities will feed through to local brokers and employers. Sectors will take the lead in defining appropriate qualifications and will work with the higher and further education sectors to further strengthen the relevance and quality of training provision.

Box 4.5: From national priorities to local delivery**Supporting those joining the labour market**

4.57 In order to ensure that this workforce support is available to all, the National Employer Training Programme will create links with Jobcentre Plus. This will support adults making the transition into work to get training in a way that meets the requirements of their employer. Different approaches are already being tested in a number of the Employer Training Pilots. The experience of the best will be applied to extend this approach throughout a national programme. This will help deliver improvements in Learning and Skills Council and Jobcentre Plus co-ordinated local delivery as set out in Box 4.2.

Trade Unions

4.58 It will continue to be important to develop the role of trade unions, not least through the growing network of Union Learning Representatives, in encouraging the take up of skills and training by employers and employees. The Department for Education and Skills is taking this forward in discussion with the TUC and the union movement in two further ways:

- the possible development of a ‘union academy’. The TUC is currently leading a feasibility study and will receive a report in December; and
- a capital fund of £1 million to help trade unions to develop their capacity so that they can make a real and effective contribution in helping Sector Skills Councils to develop the new Sector Skills Agreements.

4.59 The National Employer Training Programme will ensure that all employers have an opportunity to engage with flexibly delivered training, fully funded up to level 2 and with advice and help on access to and local support for training to level 3 and level 4. This will be backed by business support networks able to offer brokerage, and training providers able to deliver demand-led skills provision. The Government sees this as a step change in the level of support available for employers to improve and update the skills of their workforce, providing opportunities for personal progression and improving firms’ productivity.

NEXT STEPS

Skills White Paper **4.60** In the new year the Government will publish an update on its Skills Strategy which will report on progress in delivering the Government's commitments and improving skills since the Strategy was published in July 2003. This forthcoming White Paper will also:

- set out the growing role of Sector Skills Councils within a National Employer Training Programme as part of the drive to make training more responsive to employers' needs and to put skills at the heart of business development;
- develop plans for a closer working relationship between Jobcentre Plus and the Learning and Skills Council so that labour market and skills policies move forward in a way that reinforce each other; and
- build on the level 2 entitlement and set out further plans to help people progress to higher skill levels.

5

CONCLUSION

5.1 The Government is committed to building a strong economy and a fair society. Since 1997, significant progress has been made in bringing both stability and growth to the UK economy. The Government's macroeconomic framework has already contributed to the achievement of low unemployment and record levels of employment, extending opportunity ever wider and moving the UK closer towards its goal of achieving a greater proportion of people in work than ever before by 2010.

5.2 Building on this platform, the Government's ambition is to transform the UK into an even more productive economy where the development of skills continues to bring both greater social justice and improved business performance. Giving everyone the opportunity to access excellent education and then build on this foundation during their working life is key to ensuring that everyone can share in the benefits that economic growth brings. Improvements in skills allow individuals to move into better-paid employment, give them the ability to adapt to changing workplace practices and increasingly provide the security of employability.

Success in the global economy

5.3 As Chapter 2 sets out, a skilled workforce will become more important in achieving a stable, prosperous economy characterised by full employment. As global integration increases, the UK will have to become more flexible, building on its strengths and aspiring to succeed based on excellence. The trend of growing demand for higher skills in the workforce will continue, as individuals are required to be adaptable and respond to rapid technological change as well as the increasing demand for personalised goods and services from consumers.

5.4 Although the skills of the workforce are improving, big challenges remain. These challenges are not only for the Government, but also for businesses, trade unions, individuals and the education and training sector. The role of Government must be to continue to address the legacy of the UK's poor skills mix and to work in partnership with employers and employees to make the investment in skills needed to create a world class workforce for the future.

The Government's approach

5.5 The Government has already set out ambitious plans to improve the skills of young people. Chapter 3 describes the significant steps that have been taken to ensure that all young people leave school with the skills that they need to fulfil their potential and the Government's response to the Tomlinson report will build on this. Achieving the Government's goal of 50 per cent of young people to participate in higher education will mean that more young people than ever before will have the opportunity to progress to higher skill levels.

5.6 It is essential that all adults have the opportunity to improve and update their skills throughout their working lives. Chapter 4 sets out plans to take forward the Government's Skills Strategy to ensure that all adults – in or out of work – can access the training they need as a platform for employability, while also providing better support for all who wish to progress on to higher skills and qualifications. These goals are backed up by challenging Public Service Agreement targets, which run to 2010.

5.7 Even with the improvements being made in the education system and in the workforce, on current trends the UK will still have an intermediate skills gap. Even with increased participation in higher education, the UK may still lag behind some other OECD countries.

5.8 It is not possible to predict with certainty the future changes in employment patterns in the UK. However, it is clear that there is further to go if the country is to meet the longer-term challenges of developing a high-skill economy able to thrive in a global economy and offer everyone the opportunity to benefit. The Government will press ahead with the plans that it has already laid out, but believes it is also right to consider in greater depth the long-term skills needs of the UK economy.

Responding to the challenges ahead

5.9 To inform the Government's view of the long-term challenges set out in this document, the Government has asked Sandy Leitch, Chairman of the National Employment Panel and formerly a Chief Executive of Zurich Financial Services, to undertake an independent review, working closely with the Learning and Skills Council and the Sector Skills Development Agency, to examine the nature of the long-term skills needs and priorities of business and the economy.

5.10 The terms of reference for the review will be:

- to examine the UK's optimum skills mix in order to maximise economic growth and productivity by 2020; and
- in particular, to consider the different trajectories of skill levels the UK might pursue.

5.11 With a platform of high and stable levels of growth and employment, the Government's aim is to increase the UK's flexibility and build on its economic strengths. In this global environment the UK must build on its assets – its science base, high value-added manufacturing and a strong service sector – as it seeks to extend skills opportunity ever wider. The Government will strive to work in partnership with employers, unions, individuals and the education and training sector to meet these long-term challenges together.

A

SECTOR SKILLS COUNCILS

The first four Sector Skills Councils (SSCs) are developing Sector Skills Agreements by the end of 2004:

- e-skills UK (ICT/call centres)
- ConstructionSkills
- SEMTA (science, engineering and manufacturing technologies)
- Skillset (audio visual)

Sixteen SSCs have been licensed:

- Asset Skills (property and facilities management)
- Automotive Skills (motor retail)
- Cogent (chemical, nuclear, oil and gas, petroleum)
- Energy & Utility Skills
- Financial Services
- GoSkills (passenger transport)
- Improve (food and drink)
- Lantra (land based industries)
- People 1st (hospitality, leisure, travel and tourism)
- SkillsActive (sport & recreation)
- Skillfast UK (apparel, footwear and textiles)
- Skills for Health
- Skills for Justice
- Skills for Logistics (freight logistics)
- Skillsmart Retail
- SummitSkills (building related services)

Five more will be licensed by mid 2005:

- Central Government
- Creative and Cultural Skills
- Lifelong Learning UK
- Proskills (Process and manufacturing)
- Skills for Care & Development

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