

## **Policy Briefing Paper 40 Ref: 062362WO**

### **Skills in the UK: the long-term challenge. Leitch Review of Skills. Interim Report. December 2005**

*The primary purpose of Policy Briefing Papers is to provide a reliable summary of key proposals and arguments related to the learning and skills sector. They provide sufficient detail to make reference to the parent document unnecessary for the average reader, but provide signposts for those who need to explore greater detail. Where appropriate they interpret and comment on trends and implications, distinguishing clearly where LSDA's voice is expressed.*

## **Background**

The Leitch Review of Skills (Interim Report) was published alongside the Pre-Budget Report in December 2005. Sir Sandy Leitch, Chairman of the National Employment Panel had been commissioned by HM Treasury 12 months previously to lead an independent review of skills. The final findings of the report are expected in spring 2006.

The remit is to consider what the Government's ambition should be for developing the country's skills by 2020. The Review worked with a wide range of stakeholders to build an evidence base on which the government can set its ambitions for 2020 and it considered the implications for skills policy. Key questions are:

- what skills profile is the UK likely to have in 2020?
- what skills profile should the UK aim to achieve in 2020?
- what are the implications of this government ambition for policy?

A 'call for evidence' was issued in early 2005 and focused on six areas: skills in the UK; future challenges; demand for improved skills; education and training; priorities for action; and adding value. Material gathered from the 'call for evidence' was then used as the basis for statistical modelling to predict future skills needs.

## **Summary of main findings**

If likely skills needs in 2020 are to be met, the UK needs to increase the rate at which we are up-skilling the workforce beyond the ambitions for 2008 put forward in the Public Service Agreement (PSA) targets for skills.

The Review team used statistical modelling and cost-benefit analysis to assess how financial investment coupled with political prioritisation of different skills levels would affect the UK economy and society. The results showed that:

- focusing on higher level skills would give the highest net benefit and highest rate of increased economic productivity but could increase social and regional inequity

- focusing on intermediate skills increases employment and has a greater net benefit than low skills improvement, but is costly, though not as costly as focusing on higher level skills
- focusing on low skills costs far less and gives the highest benefit in terms of reducing social inequalities
- focusing on adult basic skills attainment provides the biggest additional improvement in productivity compared with the other scenarios
- focusing on young people's basic skills attainment would create improvements similar to improving adult basic skills attainment and have the lowest opportunity cost.

## Structure

The rest of this paper examines the details of the Report and is structured using the following headings. References to the original Review appear in brackets in the following styles (B7) or (3.89).

- 1 Shared priorities?**
- 2 Drivers of change**
  - International competitiveness
  - Technological change
  - Demographic change
- 3 Skills – far more ambitious targets needed**
  - Meeting PSA targets in 2008
  - The supply and demand for skills by 2020
  - Potential benefits of improved skills levels by 2020
  - Current ambitions are not high enough for the longer term
- 4 What skills should the government invest in for the future?**
  - Lower level skills
  - Intermediate level skill
  - Higher level skills
- 5 The balance of responsibility**
  - The role of individuals
  - The role of employers
  - The role of post-16 education and training
  - The role of government
  - The role of higher education
- 6. Towards conclusions and recommendations**
- 7. The next phase for the Review**

## Detail

### 1 Shared priorities?

At the beginning of the Review period (spring 2005) a wide range of organisations responded to a 'call for evidence', which asked for contributions under six main themes:

- skills in the UK: the current skills profile and its impact on the UK
- future challenges: the drivers of demand for skills and the types of skills that will be needed
- demand for improved skills: demand for skills from employers and individuals
- education and training: delivery mechanisms for education and training and their relevance to the labour market
- priorities for the UK: for the Review to take into consideration in its analysis
- adding value: how the Review can build on existing research.

Some respondents to the 'call for evidence' recognised that there had been recent improvements but **all** agreed that there were areas of the current skills profile that were damaging the UK's social and economic prospects (B7) and needed improving further.

The organisations that responded put forward a **wide range of views** that highlighted issues of particular concern to individual respondents and revealed differences in emphasis between different groups.

*There were no clear overall priorities emerging, though certain recurrent themes did emerge... (B6)*

Some future skills needs were emphasised by respondents:

- **improve basic skills:** to reduce social inequality and poor employment prospects, and increase productivity and flexibility in an increasingly tight labour market
- **improve generic and transferable skills:** to maintain a flexible workforce, maximise employability, and supply skills necessary to allow for changes in the profile of employment in the UK
- **improve maths and science achievement by 16 year olds:** ultimately to increase flow into maths and science-based careers
- **increase the supply of intermediate and technical skills:** to overcome skill shortages in vocational and practical occupations
- **improve the supply of high-level skills:** to support competitiveness of high value-added industries by ensuring quality as well as quantity'.

### 2 Drivers of change

**Global competition, technological and demographic change** were highlighted as the key challenges for the UK between now and 2020. It is thought that, by 2020, these drivers 'will place an even greater premium on the UK's skills profile and therefore the stock and flow of labour needs to be better skilled' (B8).

#### **International competitiveness**

At present, the UK has relatively poor productivity compared with international competitors, and it requires significant increase in the rate of progress towards higher productivity (1.7). For example, China and India currently produce 4 million graduates per year, compared to the 250,000 in the UK (1.21).

The clear message from the Review is that ‘the UK must ensure it has a world leading skills base or risk losing out on high value added industries and new technologies’ (1.22). To avoid ‘significant skills shortages’, employers will need to:

- ‘make the most of all the talent available to them’, for example by ensuring that people from ethnic minorities, who will account for around two-thirds of future growth in the working-age population, have equal opportunities (1.30)
- ensure barriers of gender stereotypes in careers are broken down (1.30)
- rely less on traditional flows of young people into the labour market, making appointments regardless of background (2.26).

As employers reported when responding to the ‘call for evidence’, employees and potential entrants to the workforce lack generic skills: ‘literacy, numeracy and technical skills are more likely to be a problem in recruitment’, while other generic skills were more of an issue with existing employees (2.27).

### Technological change

Recent advances in technology have demanded that production processes become increasingly specialised (1.18). Research has shown that establishments with high levels of technological change have reported a 42% increase in the need for highly qualified employees (1.68). A highly skilled workforce is essential to taking advantage of new technology as they can adapt quickly and effectively to change (1.70).

Technological change also has implications for those on the lower end of the skills spectrum. As manufacturing jobs decrease and technology substitutes for intermediate jobs, these groups will have to adapt effectively (1.73).

### Demographic change

An important trend identified by the Review team is potential sources of employment growth within the working-age population (1.30). Certain groups like **disabled people**, **ethnic minorities** and **lone parents** are under-employed, and the latter two groups are likely to continue to increase in the future (1.11). Over the coming years there will be a small decline in the number of people aged 25–49, ‘often considered the prime working age’ (1.26).

Global **migration** is on the rise and should also be seen as an important source of potential labour, say the Review team.<sup>1</sup> Migrants could account for more than 40% of growth in the working-age population between now and 2020 (1.31). However, those entering the UK (migration) have lower qualification levels than those leaving the UK (emigration) (C13). For example, estimates suggest that in 2004 there were 49,000

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<sup>1</sup> For example, from 2001 onwards, around two-thirds of migrants to the UK have been of working age. Estimates suggest that in 2006 net migration to the UK will be approximately 114,000.

immigrants and 30,000 emigrants with no qualifications and 115,000 immigrants and 40,000 emigrants with below Level 2.<sup>2</sup>

At present, on average, younger **women** tend to be better qualified than younger men but if you look at Level 2 alone there are more females than males. However, the Review found that this trend 'looks likely to equalise or reverse over the coming years' (2.53). It is interesting to note that qualifications were found to vary according first to gender and then to age group (2.52).

Also, the forthcoming changes in **pension** age for women will result in an additional 1.9 million women still in the working-age population by 2020 (3.13 and C8). At present some of the population choose to work beyond the state pension age: in 2004, it was 800,000, which made a 'significant contribution to the supply of labour'. The Review team thinks that an increase in pension age could reduce this particular trend. By 2020 there will be 2 million more people (men and women) over the age of 50 than there are today. Approximately 50% of the population alive in 2020 will have already finished full-time education and training (1.27).

*'In the future, workers are more likely to have to retrain as the proportion of older people and the length of working lives increase and the rate of change and innovation increase' (1.28).*

The Review identified a number of implications of the **ageing population** for education and training:

- training requirements will change as older workers need to learn new skills, and working practices will need to be more flexible to support and retain older workers
- the over-50s age group is 'currently far less likely to participate in education and training than younger people' (1.26) and many respondents were concerned that a culture of lifelong learning had not taken hold in the UK (B11).
- a larger retired population relative to the employed population is expected to increase demand for the leisure and health services associated with retirement, leading to increased employment in this sector.

### **3 Skills – far more ambitious targets needed**

#### **Meeting PSA targets in 2008**

The UK is on a trajectory to meet current PSA targets set for 2008. The Review's modelling of qualifications (as a proxy for skills) has shown that a continuation of current trends and achievement of government ambitions will improve the UK's skills profile by 2020.<sup>3</sup> **Maintaining recent trends and meeting targets represents a**

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<sup>2</sup> Table C.2: Projected relative qualifications of immigrants and emigrants (2004). Source: Derived from LFS (autumn 2004) and IPS.

<sup>3</sup> For example, there will be a fall in the number of working-age people with low level qualifications and a rise in the number of people with high skills qualifications (3.89). Current ambitions for improving basic skills among workers would reduce the number of people with less than Level 1 literacy skills by 1.2m (4.35).

**significant challenge** and ‘improvements will be less if targets are not achieved’ warns the Interim Report (3.89).

However, the Review team strongly suggests that changes in the structure of the global economy (as described above ), mean that the **extent of such changes is likely to be so great that the current rate of progress in skills will need to be far quicker** if predicted demand is to be met up to 2020.

Even if the UK maintained the same rate of progress after PSA targets are met in 2008, it would not meet skills needs in 2020 (4.36). The impact of this rate of progress on productivity and employment in the longer term (ie to 2020) is limited, not least because there would still be ‘considerable numbers without functional literacy and numeracy’ (4.36).

A **far higher level of ambition** than existing government targets is required to improve the UK’s skills profile by 2020.

*‘The UK workforce must have the skills to take advantage of changes in technology and workers must be able to reskill as the structure of the economy changes.’ (1.24)*

### **Potential benefits of improved skills levels by 2020**

The Interim Report presents a careful analysis of the potential benefits of improving skills needs up to 2020, most importantly:

- economic growth as a result of higher productivity and employment
- distributional benefits, through reduced income inequality; nationally and regionally (4.8).

The rest of this section examines aspects of these two benefits in more detail.

### **Higher productivity**

There is ‘clear evidence’ that improvements in skills lead to higher productivity. The government assumes that productivity will grow by around 2% per year in the medium term. The evidence gathered for the Review suggests that skills improvements have contributed around 0.4 percentage points to annual productivity growth in the recent past. Therefore, the current output would need to grow by 1.6% per year until 2020 (D16).

Other interesting findings associated with increasing productivity are below.

- The productivity of employees matters more than their qualifications. In general, employers ‘would not pay higher wages to someone with higher qualifications if they were not more productive than someone without those qualifications’ (D7).
- For individual employees, the correlation between qualification gained and improvement in wage can vary depending how qualifications are delivered. For example, returns to NVQ Level 2 are significantly higher when they are delivered in the workplace than when delivered mainly in the classroom (D8).

- ‘There is some tentative evidence that the returns on higher education qualifications may be beginning to fall’.<sup>4</sup>

### **Increased employment**

Skills are vital for increasing employment rates; they give employers a ‘larger pool of skilled and flexible labour and they increase individuals’ employment opportunities (1.57).

Groups such as the disabled and ethnic minorities have some of the lowest employment rates, partly because of low skills. By tapping into these groups the UK can increase its potential labour force (1.58).

The ‘low pay–no pay’ cycle can also be broken by giving people the opportunity to improve their skills and move into sustained employment (1.68).

*Distributional benefits:* Findings from the statistical modelling exercises show that improvements in skills can have significant impacts on income inequality, regional inequality and social mobility. There are also ‘social impacts’ related to the acquisition or lack of skills.

*Income inequality:* ‘Changes in skills and qualifications can affect income inequality by altering pay and employment prospects differentially across the income distribution’ (D24).

*Regional inequality:*<sup>6</sup> Although internal migration between regions is relatively low, ‘skilled workers and young adults show a higher propensity to move’ than other groups. Also, modelling of net change in the number of graduates (who are unevenly distributed across the country because universities are not evenly distributed) suggested a future rise in employment and productivity gains in London, the East and Northern Ireland, and a small reduction in the gains in the other regions of the UK (D32).

### **Social mobility**

Income is a good indicator of social mobility. Broadly speaking, the position of parents in the income distribution correlates with their child’s future income distribution (1.95).

Improving skills from a young age can break the cycle of deprivation and equip young people with the tools to move out of poverty (1.89).

Social mobility in the UK is low, but can be improved by better skills. Social mobility allows a greater number of people to compete for jobs and contribute to society (1.97).

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<sup>4</sup> Purcell, Elias, Davies, Wilton (2005). *The class of ’99: a study of the early labour market experiences of recent graduates*. DfES. (D12).

<sup>5</sup> Purcell, Elias, Davies, Wilton (2005). *The class of ’99: a study of the early labour market experiences of recent graduates*. DfES. (D12).

<sup>6</sup> The model estimates the potential impact of skills improvements on disparities in regional productivity and employment. An assumption is made that ‘that the proportion of new qualifications going to each region mirrors its population share.’ The Review also modelled the impact of targeting skills improvements on three regions: the North East, North West and West Midlands.

## Social impact

For people with low skills levels and low income, improving skills can lead to better employment chances and raised income. People on lower incomes are more likely to be victims of crime and to commit crime. They are also more likely to have poor health (1.104 and 1.105-6).

Better skills also have a positive impact on social cohesion, with evidence showing that those with higher skills have greater levels of racial tolerance. However, improving skills alone is not the answer to building a more cohesive society (1.107).

## 'Restructuring' and 'catch-up' scenarios

The Review team identified two main scenarios which could lead the UK meeting or not meeting *higher level* skills needs in 2020:<sup>7</sup>

- sectors that have performed less well in terms of productivity and wages begin to catch up with other sectors
- sectors that have performed less well in terms of productivity and wages continue to fall behind. The poor performance is mainly due to increasing global competition and greater investment in skills continues in sectors which have seen higher investment in recent years (3.82).

## 4 What skills should the government invest in for the future?

A cost–benefit analysis model was developed to **assess the relative impacts of investing in different levels of skills**: low, intermediate, high.<sup>8</sup>

As already indicated (see 2 Drivers of change), the cost–benefit analysis modelling showed that being more ambitious would lead to larger additional benefits, eg increasing rates of productivity growth above its current rate (4.79).

Higher ambition could take many forms at all parts of the 'skills distribution' throughout the population – numbers of people with different qualifications and skills at different levels. The **optimal skills profile** will involve a mix of ambitions, targeting different parts of the skills distribution and not just formal qualifications (4.42). The analysis found that focusing on high skills would improve productivity the most, but focusing on low skills would improve employment the most: this needs to be considered when determining the optimal skills mix (4.85).

The impact of improving the UK's skills profile is illustrated in three 'scenarios' developed about improving skills at low, intermediate and high levels. A further two scenarios focus on raising attainment in adult basic skills and improving the attainment of young people.

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<sup>7</sup> These scenarios 'assume an increase in the use of skills in the economy, either through changes in the occupational make-up of the economy, or by improvements in the skill levels within occupational groups' (3.82).

<sup>8</sup> The cost–benefit analysis compared the 'change in the proportions of jobs at each level between 2004 and 2020 with the change in proportions of working-age people at each level'. This gives some indication of whether or not the change in supply is keeping place with trends in employment (3.72).

<sup>9</sup> Qualifications are used as a proxy for skills. The limitations of this approach are acknowledged in the report but it remains the most reliable measure. In the final report, a broader notion of skills will be given greater consideration.



## Scenario 1 Tackling low skills

There appears to be no simple conclusion to be drawn from examining the costs and benefits of investing more in low skills. The overall cost of this scenario would be £1.5 billion, of which £350 million is the direct cost of course provision. Tackling low skills is cheaper than tackling higher-level skills. Compared with the other scenarios it would deliver the smallest total net benefit<sup>10</sup> (ie increased employment and productivity among those in work) (4.46), but given the relative cost of each scenario, tackling low skills would then deliver the highest benefit-cost ratio (4.83). Tackling low skills so that current ambitions are delivered would have minimal improvements on economic output on top of what current ambitions would achieve (4.45).

However, as already mentioned, upskilling those with low qualifications would lift the bottom half of the income distribution and improve income inequalities (4.49). Income inequality would be best improved by focusing on low skills, while focusing on high skills is likely to increase relative poverty (4.86). Further, improving low skills would most benefit low income regions (4.50), and 'is likely to have the largest positive impact' on wider social outcomes, like reduced crime and better health (4.51).

'There will be a parallel reduction in the number of people who only have appropriate qualifications to do lower level jobs' (3.73). Nevertheless, there will still be too many working-age people with low qualifications. This is partly because far fewer jobs will be available to people with no qualifications and those below Level 2.

## Scenario 2 Improving intermediate skills

The picture in the middle of the skills spectrum was mixed. This scenario focused on progression to intermediate skills, after accounting for the potential impact of current policy targets<sup>11</sup> (4.52), and has the smallest impact on employment. However, it has a larger impact on productivity, 0.3% points higher than the tackling low skills scenario (4.53). The net benefit for this scenario is also higher than tackling low level skills. Most of the additional benefit (around 75%) comes from improved productivity of those already in work (4.54).

There was found to be 'too many people with Level 2', and 'too few with Level 3' to meet predicted skills needs in 2020. However, many of those currently at Level 2 (and 3) will, in time, progress to higher levels (3.79).

In this scenario northern regions of England would experience a higher increase in employment compared with southern; regional changes in productivity are similar (4.56).

The scenario would cost £3bn in addition to the cost of current ambitions each year to deliver. Direct course provision is £800m, increasing the current LSC adult skills budget by 40% (4.55).

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<sup>10</sup> An average of £3.1-3.3bn per year (4.46).

<sup>11</sup> The target is to increase the numbers upskilling to Level 3 by 2020 by 3.5m people (4.52).

### **Scenario 3 Focusing on higher level skills**

This scenario considers increasing the flows of young people into higher education. Of the three skills scenarios this will have the biggest impact on productivity, adding 0.3 percentage points to annual economic growth – approximately 50% more to economic growth than has been achieved in the past.

If current trends continue, there will be an increasing number of qualified individuals able to work in higher skilled occupations (3.73). The projections suggest that by 2020 ‘the number of jobs at Level 3 will be equivalent to 97% of the number in the working age population’ (3.87). However, the report says that this may not be enough to change the UK’s international comparative rankings (3.90). It may also create greater relative disadvantage for the lower skilled on low incomes.

The Review team found that economic performance would be improved by moving towards a higher skilled economy so improvements in the supply of skilled labour will be necessary (3.91). There is also evidence that ‘the economy has been changing to make greater use of **higher level generic skills** over time’ (3.72).

This scenario delivers the largest net benefit, largely because of improved productivity. However, the wider social impacts are likely to be smaller than focusing on low skills and, ‘taking into account these non-quantifiable benefits, the difference in net benefit is likely to be much smaller’ (4.67).

The impact on employment is ‘smaller than the other scenarios, largely because employment rates among those with Level 3 and above qualifications are already high’ (4.60). The net benefit result is also more sensitive to changes in wage return than the low skills scenario. Focusing on high skills raises the median wage, so although some (mainly higher) income groups may be better off, relative poverty could increase (4.64).

The total cost would be around £9 billion per year – by far the most expensive scenario. Consequently the benefit–cost ratio for this scenario is slightly lower than the other skills scenarios. The ‘return’ on the investment in this scenario would be lower than the ‘return’ in the intermediate skills scenario’ (4.62). Also, focusing on high skills produces roughly the same net benefits as tackling low skills, though the benefit-cost ratio for tackling low skills would, given its low cost, be highest (4.63).

The distributional impacts of this scenario are also likely to be worse than the other scenarios, because graduate migration increases regional inequalities (4.66). Improving higher skills depends on regions that have few high productivity firms retaining large numbers of people with qualifications at Level 4+.

### **Scenario 4 Improving adult basic skills attainment**

The cost-benefit analysis results showed that delivering current ambitions for improvements in basic skills to any group will result in a significant net benefit, bigger than lower and intermediate skills but not as big as focusing on high level skills (4.94). Basic skills courses are also relatively cheap to deliver. Consequently it has the highest benefit–cost ratio. Those without basic skills tend to be low paid, so improvements in basic skills are most likely to lead to reductions in income inequalities (4.97). The wider benefits of both the basic skills scenarios are also likely to be larger than for the formal qualifications scenarios (4.98).

The scenario for adults is based on £800m per year being invested, a quarter of which is the direct cost of providing the courses (4.73). This investment would result in the

rate of their basic skills attainment increasing by 2.5 times compared with the rate achieved if current ambitions are to be met (4.70). Improvements would reduce the number of individuals with Level 1, or below Level 1, literacy and numeracy skills (4.70).

Productivity would increase by 0.03 percentage points and by 2020 employment rates would be 0.15-0.25 percentage points higher than they are today (4.71). Improving adult attainment of basic skills provides the biggest additional improvement in productivity but the impact on employment is relatively small (4.72). Overall, this scenario has a large net benefit and adds more to the net benefit of current ambitions than the tackling of low skills and intermediate skills scenarios (4.73).

However, delivering current ambitions on basic skills would deliver smaller benefits than delivering current ambitions on formal qualifications. This is because current ambitions for formal qualifications involve upskilling much larger numbers of people (4.72).

### **Scenario 5 Improving the attainment of basic skills by young people**

In this scenario, the stock of individuals with less than Level 1 literacy and numeracy skills is reduced by 2m and 3.1m respectively (4.74). The annual cost of this scenario is £200m, all of which is accounted for by the direct cost of provision (Table 4.8).

This scenario produces similar productivity and employment benefits to the improving adult attainment scenario (4.75). However, the net benefit and benefit–cost ratio is higher for this scenario than any of the other scenarios, primarily because there is by definition no opportunity cost for young people in school full time (4.76).

## **5 The balance of responsibility**

The Review set out to consider whether the ‘current balance of responsibility is appropriate and sustainable in achieving the ambition it sets for the UK’s skills profile in 2020’ (6.16). The main conclusion to date appears to be that partnership between government, employers and individuals will need to develop further to deliver skills needs (6.13), and each group needs to develop specific roles.

### **The role of individuals**

Findings from the ‘call for evidence’ strongly suggest that the UK population needs a stronger learning culture. The employed are more likely to take part in learning than unemployed, with finance, lack of information and practical constraints the main barriers to participation (5.34). Only postgraduates appear to prefer spending their time on learning rather than doing other things. ‘Such a barrier seems likely to limit the potential impact of intervention to increase individual participation’ (5.37).

### **The role of employers**

The Review presents a number of employers’ concerns and indicates roles that employers should take if the UK is to meet likely demand for skills up to 2020. Employer engagement with the post-16 education and training system emerged as one of the main issues.

Employers responding to the ‘call for evidence’ expressed concern that the impetus for learning new skills should come from individuals rather than employers (B12). In contrast, many other respondents argued that employers, rather than education and training providers, have a responsibility to fund the provision of technical skills of their employees (B13).

The Review team highlight the need for employers to effectively diagnose their skills needs, in response to technological and economic change and to allow training providers to respond (5.2). Managers need to use their knowledge of the product market and commit to developing organisational and production processes that deploy the skills of their workforce effectively (6.15). The stock of skills from ‘potential changes in performance’, needs to be turned to ‘real increases in productivity’ by effectively utilising the skills of the workforce (5.21). Employers responding to the ‘call for evidence’ also suggested that older members of the current workforce need support in adapting to technological change, ‘primarily through engendering lifelong learning approaches and age-specific re-skilling’ (5.26).<sup>12</sup>

At present, much of the training done by employers is either job specific or statutory.<sup>13</sup> This may meet their immediate needs but employees are less likely to develop transferable skills (5.10). On-the-job training is cheaper than institution-based training and can fill parts of the skills gap, but it is more likely to be unaccredited and therefore unrecognised by future employers (5.14).

Some respondents also worried that there was still too much focus, by both individuals and employers, on initial training for a career and not enough recognition of the need to update skills throughout life (B12).

### **The role of the post-16 education and training system**

Many employers responding to the ‘call for evidence’ raised the need for flexible and responsive provision of **post-16 education and training**. It is also considered vital for employer engagement and to support adult learners who need to retrain or upskill (B17). In addition, respondent perceptions of government work-based learning policies, such as the National Employer Training Programme and Apprenticeships<sup>14</sup>, were broadly positive. There was high awareness of and general support for the principles underpinning these policies, though concerns were raised about the level of bureaucracy associated with certain aspects of them (B18).

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<sup>12</sup> Some respondents worried that there was too much focus ‘on new entrant training as the foundation for a life long career’ (5.26).

<sup>13</sup> The report includes much useful data about employers’ current approaches to training. At present, employers reporting skills gaps are ‘more likely to provide training (82% compared to 59% of employers without gaps) they are also more likely to have training plans and budgets than employers who do not report skills gaps’ (5.5). Data shows that UK employers spend more on training as a percentage of their total payroll, than the other EU states, the USA, Canada and Asia (5.6). European data shows that the proportion of the UK employees participating in vocational training increased between 1999 and 2002, but time spent in training decreased over the same period by 5% (5.8). Smaller employers are also less likely to provide training leading to qualifications (5.11). However they do spend far more on training per employee than larger employers (5.19). On-the-job training also increases with the size of the employer (5.12). Employees with lower qualifications are less likely to receive training than higher qualified employees (5.15).

<sup>14</sup> Apprenticeships are a valued part of the skills system and are gaining increasing attention from the LSC (5.57), though respondents to the ‘call for evidence’ highlighted concerns about the level of bureaucracy associated with certain aspects of work-based learning policy (B18).

The report highlights ‘considerable concern’ among respondents that vocational education does not currently provide a viable alternative to academic education, meaning that demand for technical skills might not be met and that employers would not use the increased supply of higher level qualifications (B16). It was interesting to note that although many of them placed an emphasis on generic, transferable and basic skills, they linked this to *school* education (B15) rather than further, higher, work-based or adult education.

Respondents were also concerned that education and training provision is being ‘distorted by the organisations connected to its delivery’. Poor interaction between institutions and conflicting objectives and targets are causing confusion, lack of responsiveness and consequently reduced levels of employer engagement (B19).

The Skills Strategy White Paper clarified the need for government and public-sector agencies to simplify, integrate and help customer (users of training and education) understand what is available to them and how to get to it. The report draws particular attention to the part of the White Paper that says individual employers do not need to get to grips with the organisational detail of the training and business support infrastructure but to ‘experience a better simplified, front-end service’ (5.78). The Skills for Business network, National Employment Panel, the LSC and Regional Skills Partnership are all adopting a more demand-led approach informed by employers at several levels (5.66).

Further education (FE) colleges alongside schools, universities and other training providers are ‘critical to improving the skills of both young people and adults’ (5.53). The recently published (November 2005) *Foster Review of the future role of FE colleges* suggested FE colleges should improve the learning experience and supply economically valuable skills as their primary goal. A rigorous approach to quality, funding, performance management, capital investment and workforce development must all be geared towards this goal (Box 5.4). The Interim Report states that:

*The government’s response<sup>15</sup> to the recommendations of the Foster Review will help to improve the capacity of the education and training sector to respond to the challenge of needing to improve skills level by 2020 (5.53).*

Of those individuals in publicly funded further education in 2003/04:

- 61% were aged 25–59
- 60% of learners were female
- 15% of learners were from ethnic minority groups
- Asian and black people are more likely to continue onto higher education than their white counterparts (5.29).

With this in mind it is important to ensure that these groups continue in further education, says the report.

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<sup>15</sup> Expected in a White Paper in spring 2006.

## The role of government

The report appears to suggest that the government should:

- focus on the intermediate term (ie15 years ahead) and help others to do likewise
- focus investment and intervention on helping individuals and employers overcome the barriers restricting training
- provide incentives for individuals and employers to invest in training
- help build a consensus between themselves, employer representatives and trade unions (6.14/15)
- design and deliver policies for the education and training system that ensure effectiveness and do not produce ‘unintended outcomes that inhibit the impact of the policy’ (5.43).

Recent policies and reviews for education and training have focused strongly on skills, helping to consolidate efforts. As well as the Skills Strategy and Foster Review (discussed above), the recent 14-19 White Paper aims to improve secondary and post-16 education and training so that all young people achieve and continue in learning to at least the age of 18, in part through the introduction of new specialised diplomas.<sup>16</sup> More generally, the report says that policy aims to improve participation, reduce non-completion rates and create fairer access will also benefit the UK skills profile (5.59).

## The role of higher education

As with the post-16 system, the challenge to HE institutions is to work more closely with employers to build on employer need and the anticipated growth in the demand for HE-level skills in the workplace (5.59).

## 6 Towards conclusions and recommendations

As this is an interim report, there are no firm recommendations yet. However, Chapter 6 gives a number of tentative conclusions and pointers towards recommendations.

*‘The Review understands how important global economic challenges, long-term growth, sustaining employment rates and supporting social justice are for the government. Achieving this will require commitment from the Government, those providing education and training, trade unions and individuals to work together’* (6.22).

Although it will be challenging to meet the targets currently set by government for 2010 and to sustain momentum beyond this date, it is clear that an even bigger ambition is required to meet the challenges ahead and improve the UK’s comparative skills profile (6.4).

For the future it is necessary to build on **shared responsibility** between government, employers and individuals to achieve ambitions for 2020 (6.6).

Occupational trends show that changes in the labour market over the next 15 years could lead to even greater disadvantage for some groups, as the economy requires an ever-shrinking number of low skilled workers. Also, at present, there are relatively few highly skilled people, and movement into a more highly skilled and productive economy

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<sup>16</sup> 14 new specialised diplomas will be in place by 2010. A-levels and GCSES will be incorporated into the new framework, and Apprenticeships will continue but with a clear alignment to new diplomas (5.55).

will therefore require an increased supply of workers with high level skills as well as making better use of the existing supply of such workers (6.4).

It will not be possible to rely solely on the flow of better-qualified young people to drive further change by 2020. The Review emphasises that further improvements must be made to the *stock* of skills in the working-age population. In particular:

- further action to reduce the stock of adults without basic literacy and numeracy skills
- progression to Level 2 and above to enable expansion of the economy's capacity in higher end skills (6.7).
- at the high end of the skills spectrum, 'further consideration must be given to whether people have the right incentives to gain skills that are commercially valuable and support innovation' (6.7).

## 7 The next phase for the Review

The next phase of the Review will address:

- financial implications
- delivery of skills
- whether there is capacity within the existing system to achieve further improvements by 2020 (6.5).

The Leitch Review will present its conclusions and recommendations in a final report to the government in spring 2006. This promises to 'set out a comprehensive ambition for developing skills in the UK by 2020, balancing the need to prioritise different types and levels of skills' (6.8). The next stage of the review will also consider the impact on future skills needs of *long-term* economic and social aspirations for the country (6.8).

The next phase of the Review will address three issues:

- 'the skills profile the UK should aim to achieve by 2020 to support growth, productivity and support social justice over the long term
- the appropriate balance of responsibility between Government, employers and individuals for the action required to meet this level of change
- the policy framework required to support this' (6.23).

In the coming months, the Review team will therefore focus on wider issues such as 'the impact of targeting investment in skills in order to support wider social objectives'; social mobility; and the affects of targeting skills policy to help address regional growth (6.9).

Crucially, there is acknowledgement of the importance of building further on their initial analysis of the supply of qualifications and taking a broader view of the type of skills required in the labour market, in particular:

- vocational and technical skills
- generic skills
- skills needed to drive innovation (6.11).

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