

A report by the Skills Commission

STILL IN TUNE?

THE SKILLS SYSTEM AND
THE CHANGING STRUCTURES
OF WORK



The ways in which people work are changing, with flexibility characterising more people's working patterns.

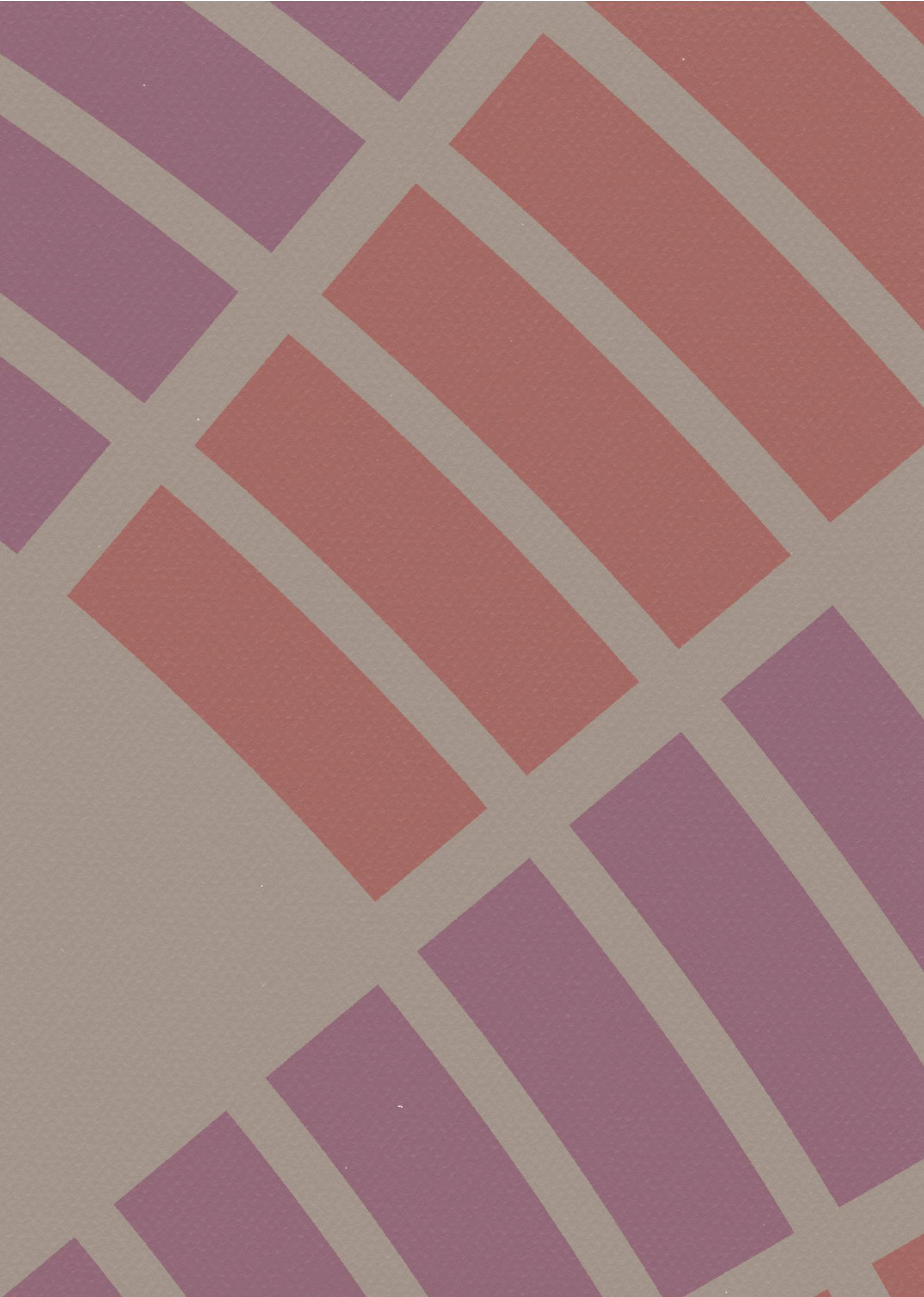
These changes present significant challenges and the skills system must respond.

At present, the skills system in the UK is not adequately matched to the modern structures of work in 2014, and will become further misaligned in the coming years unless action is taken now.



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Strategic Alert 1

Uncertainty around the responsibility for training in an increasingly flexible labour market

Strategic Alert 2

Declining social mobility owing to a reduction in the alignment of skills provision to work

Strategic Alert 3

Fragmentation in the system making it difficult for employers to engage

Strategic Alert 4

Alarming policy dissonance between different Central Government departments

Foreword

The scope and aims of this inquiry have been broad and ambitious, and it is with a sense of urgency that we present its findings to all those with a role and an interest in ensuring that our skills provision is relevant, responsive and forward-looking.

We look, for the first time, at the skills system through the lens of work: we examine the ways in which the labour market is changing, and the emerging rhythms and patterns of the workplace.

Let us not underplay the challenges ahead: continued austerity, calls from learners, employers and Government to do ‘more with less’, and a fundamental repositioning of supply and demand in publicly-funded skills provision. In rising to these challenges it is vital that we do not lose sight of the bigger picture. Our goal must be a vocational education system that is totally attuned to work, in all senses.

Over the past quarter of a century the composition of the economy and shape of the labour market have changed substantially. Not only has the nature of work changed – becoming more knowledge intensive and high skilled in many instances – but so too have the entry points and progression routes.

The ways in which people work are similarly changing, with flexibility, whether fully embraced or not, characterising more people’s working patterns. The notion of ‘a job for life’ is out of date, and many expect to have multiple or portfolio careers. The workforce itself also looks and feels very different. There are a greater number of women in work than ever. The workforce is more international, and people need and wish to work for longer.

These changes present significant challenges, and the skills system must respond. At present, the skills system in the UK is not adequately matched to the modern structures of work in 2014, and will become further misaligned in the coming years unless action is taken now.

As a starter, the system must ask:

- Where does responsibility for training lie in an increasingly flexible labour market?
- How can we ensure that all young people, regardless of background, have access to the advice they need in order make informed decisions about their futures?
- What can be done to ensure there are structured pathways for individuals to progress through a polarised labour market?
- How can we make sure there is adequate provision for older workers to retrain?

The Skills Commission has concluded that siloed thinking from government departments, a lack of engagement between major components of the system such as schools, colleges and employers, and a narrow political focus on some aspects of vocational provision or particular policy levers is hampering our success. We use this document to alert policy makers, providers and employers to these fundamental questions, calling upon players in the system to act with urgency and clarity, in the best interests of the economy, and society as a whole.

Ultimately the important cultural changes that need to occur cannot be achieved by focusing on individual components of the system in isolation from each other. If this inquiry has taught us anything it is that we need greater 'systems thinking' from all players to ensure that we are well equipped to meet the challenges of a changing labour market and society.

In the build up to the 2015 General Election we invite all political parties to join the Skills Commission in debating these issues and giving our skills system the prominence it deserves as the foundation of the nation's future growth, innovation, and productivity.

Lastly, we would like to extend our gratitude to OCR for their support of this inquiry, and our thanks to everyone who contributed.



A handwritten signature in blue ink that reads "B. Sheerman".

Barry Sheerman MP
Co-Chair, Skills Commission



A handwritten signature in blue ink that reads "Ruth Silver".

Dame Ruth Silver
Co-Chair, Skills Commission

Executive Summary

4 'Strategic Alerts'

This inquiry process has painted a worrying picture. While contributors spoke of a variety of issues affecting their areas of interest and about specific components of the system, we have identified clear overarching themes and system-wide concerns.

We feel there is an urgent need to flag four key 'strategic alerts' to the system which require concerted attention.

With the economy in recovery and skills policy featuring a surprising amount in the pre-election build up, now is the time to think big and grasp the opportunity to act on these 'strategic alerts' and their implications for all component parts of the skills system.

Strategic Alert 1: **Uncertainty around the responsibility for training in an increasingly flexible labour market**

The labour market has become increasingly flexible, with a greater proportion of the workforce now self-employed or working in insecure and part-time arrangements. This raises the question – who is responsible for the training of individuals not working as regular employees?

This concern is not just limited to those engaged in more flexible patterns of employment. We are alarmed about the long-term trend of declining rates of discretionary training for employees and particularly for workers with lower levels of education.

As the labour market changes the individual is being left with a greater responsibility for sourcing and funding their own training.

If this is to be the case and if we are serious as a nation about boosting productivity, enabling individuals to progress upwards through the labour market, and maintaining the relevance of the skills system to wider society, then we must ensure that any disincentives to training in the tax system are removed and structures and incentives are put in place to support individuals in investing in their own skills development.

Strategic Alert 2: **Declining social mobility owing to a reduction in the alignment of skills provision to work**

In light of analysis of labour market change and economic projections, the outlook on social mobility for a number of groups is worse than expected, and worsening.

As the shape and composition of the labour market has changed, so too have entry and progression routes. Many structured and traditional occupational routes have been eroded and new pathways often lack clear landmarks or route maps.

Today's young people face increased competition from more experienced workers to access entry level positions. Access into the professions is often dependent upon networks as well as a high degree of education, despite the notable work by some professions to create new work-based routes and apprenticeships. And the ability to endure unpaid internships limits the chances of those without means to enter certain sectors.

Advancement through the labour market has become more difficult for non-graduates. While the labour market has changed, the job preferences of non-graduates have not, and many are pursuing opportunities in dwindling markets and low-paid sectors. This phenomenon is particularly damaging for female non-graduates who tend to enter low-paid sectors with limited opportunities for progression.

Given that diverse working teams are recognised as being more productive, we have an economic as well as an ethical imperative to tackle inequality of access and stalling rates of social mobility.

Strategic Alert 3:

Fragmentation in the system making it difficult for employers to engage

Employer engagement in the skills system is essential, yet the increasing complexity of the system is in danger of pushing employers away.

The Skills Commission supports diversity of initiatives to ensure that employers and providers are able to collaborate locally in whatever form suits local need. However, the changing structures of work, and various attempts to 'keep up' by Government, providers and industry has left us with a system that lacks overarching oversight to ensure the best interests of learners are placed at the heart of the system. There are too many moving parts. Employers are telling us of the difficulties of engaging with a fragmented system, and working with a proliferation of standards and initiatives.

The system needs to be as easily navigable for employers as possible, with clear local brokerage networks to facilitate meaningful engagement and build dynamic relationships between education providers and local businesses of all sizes. Localised, sectoral and national approaches to industry must also seek to complement each other. They must ensure the most effective use of resources, and enable employers to have the clearest possible understanding, and direct ownership of, industry standards and their relationship to workforce competence and skills.

Strategic Alert 4:
Alarming policy dissonance between different Central Government departments.

We heard evidence of numerous policy tensions between the Department for Business, Innovation and Skills (BIS), the Department for Work and Pensions (DWP), the Department for Education (DfE), and HM Revenue and Customs (HMRC).

The introduction of Universal Credit needs to be more responsive to, and sensitive of, the labour market opportunities for young people. The DWP will struggle to boost the retention rates of older workers without support from BIS. An adequate system of careers advice and guidance cannot be built without investment from, and the support of, the DfE, and similarly the self-employed will receive lower rates of training whilst the tax system works as an active disincentive to train.

In a time of public austerity, and in light of the challenges brought about by more flexible patterns of work, a difficult youth labour market and an aging workforce, more successful co-operation between the departments of government and their agencies is vital.

Analysing the changing structures of work

Introduction

As the economy enters a phase of recovery after the devastation caused by the 2008 financial crisis, and we begin to think more about productivity and growth in an increasingly competitive global economy, it seems a good time to take stock of the major shifts in the labour market, to training needs, and to society, and to ask; how the skills system is adapting to the changing structures of work?

There have been significant changes to the shape and composition of the economy and labour market over the past quarter of a century and these have been reflected in the training demands of individuals and industry. The workforce and their interactions with work are also evolving as technology, innovation and globalisation transform the ways in which we live and work. With further disruptions and advancements inevitable as technology pervades every aspect of our lives, and the global economy becomes more competitive, we must ensure that the skills ecosystem is keeping abreast of changes to work.

The economy and labour market

The changing industrial make-up of the UK economy

Over the past few decades we have seen the decline of manufacturing and industry to around 10% of GDP, and a move towards a knowledge-based economy in which service industries and human capital are increasingly important.¹ Today, some of the key strengths of the UK's economy include knowledge-intensive business services, high-end manufacturing, the creative industries, and research and development in; agrifoods, chemicals and pharmaceuticals, green technologies, automotive, and aerospace.² The UK also has a strong service sector and growing care sector.

The application of new technologies is changing the identity and the skills needs of industries, particularly as greater interconnectivity drives innovation between sectors. For example, while demand for low skilled labour wanes in manufacturing, the automation of the production process requires expertise from computing and design. It is likely that 3D-printing and the possibility of reshoring and bespoke manufacturing will continue to transform the character of the sector, and servitisation will continue to blur boundaries between other industries.³

Technological and business innovation is changing job roles. While it is estimated that manufacturing is expected to shed 1% of jobs a year up to 2022, amounting to some 230,000 jobs, others predict the creation of 100,000-200,000 jobs in the sector over the next decade as innovations create new roles.^{4,5} In light of this, the need for organisations to upskill their employees is growing. Currently 40% of employers in professional occupations and in care and leisure anticipate their staff will require upskilling in the next 12 months. However, attitudes on the need to upskill staff are not uniform across the economy, with employers generally considering little need for upskilling staff in administrative and elementary roles.⁶

Occupational change

Across the labour market we have seen an expansion in the professions and an increased demand for high skilled workers, technicians and managers. Recent ONS *Labour Force Survey* data reveals that between April to June 2014, 44% of the working population were employed in higher level occupational groups which include 'Managers, Directors and Senior Officials', 'Professional Occupations', and 'Associate Professional and Technical Occupations'.⁷ There are an extra three million people working in these roles as the top three occupational groups have increased their share of the labour market since 2001. Over half of all working graduates, and 11% of working non-graduates, now work in jobs requiring high level skills, while a further 30% of graduates, and 25% of the non-graduate workforce, are now engaged in 'upper to middle skilled' level work.⁸ (see next page)

1 EU Business (March 2014) 'UK Country Overview'. Available at: <http://www.eubusiness.com/europe/uk>
2 CBI 'UK's Economic Strengths'. Available at: <http://www.cbi.org.uk/campaigns/industrial-strategy/uks-economic-strengths/>
3 All-Party Parliamentary Manufacturing Group (November 2013) 'Making Good' p.31. Available at: <http://www.policyconnect.org.uk/apmg/research/report-making-good-study-culture-competitiveness-uk-manufacturing>
4 UKCES (March 2014) 'Working Futures' p.45. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/298510/working-futures-2012-2022-main-report.pdf
5 UKCES (February 2014) 'Future of Work' p.38. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/303334/er84-the-future-of-work-evidence-report.pdf
6 UKCES (January 2014) 'UK Commission's Employer Skills Survey 2013' p.53-54. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327492/evidence-report-81-ukces-employer-skills-survey-13-full-report-final.pdf
7 ONS (April to June 2014) 'Labour Force Survey Employment Status by Occupation'. Available at: <http://www.ons.gov.uk/ons/publications/reference-tables.html?edition=tcn%3A77-373844>

However, while high skilled opportunities are opening up in the labour market, globalisation and technological change have put pressure on the middle tier of the job market. There has been a decline in traditional roles in the middle of the skills and earnings range leading to a drop in clerical, administrative, skilled trade and 'blue collar' jobs. Job losses in these areas, which often require labour-intensive but repetitive work, seem to reflect a longer term structural trend caused by the impact of information and communications technology, rather than the fall-out from the global financial crisis of 2008 and worldwide recession.⁹ We are thus likely to see this trend reassert itself as the economy begins to grow.

At the same time as the labour market expands at the top and contracts in the middle, there have been similar shifts across the lower four occupational groups of the labour market which employ a third of the workforce. As opportunities for process, plant and machine operatives have shrunk, there has been significant employment growth in care and leisure, and other service occupations. Although not all jobs in these occupational categories will be poorly remunerated it is likely that the UK's five million low-paid workers will be employed in these occupations which have fewer entry requirements and shorter periods of training.¹⁰

Technological advances and business innovations, the key drivers of these changes in labour market structure, are likely to continue impacting upon the workplace. While much of the disruption has so far been restricted to occupations involving routine tasks, more skilled non-manual occupations will become vulnerable to computerisation as automation becomes increasingly sophisticated. This is particularly likely to affect those in sales, and in office and administrative support.¹¹ Based on these projections, and the current shape of the labour market, many are highlighting increasing polarisation between the top and bottom of the market as a mounting social concern: the hourglass economy.

Networks and business structures

There have been shifts in business and firm structure over the past three decades. Opportunities in large occupational labour markets have declined along with industrial employers since the 1980s. Business growth from the millennium has been primarily driven by SMEs, and non-employing businesses which according to *Business Population Estimates* have increased in number in almost every year since 2000.¹²

These same estimates show the number of large private sector businesses (with 250 or more employees) to have decreased by 8.2 per cent over the period, falling from 7,200 at the start of 2000 to 6,600 at the start of 2013. The numbers employed in public sector is also at the lowest level since 1999 (5.409 million) as a result of recession, privatisation and outsourcing to the private sector.¹³

8 (from previous page) ONS (November 2013) 'Full Report - Graduates in the Labour Market' Graduates and non-graduates by the skill level of their job' Available at: <http://www.ons.gov.uk/ons/rel/lmac/graduates-in-the-labour-market/2013/rpt--graduates-in-the-uk-labour-market-2013.html#tab-Graduates-in-the-UK-labour-market-2013>

9 UKCES (March 2014) 'Working Futures' p.57.

10 Inquiry evidence:

11 Dr Carl Benedict Frey and Michael A. Osborne (September 2013) 'The Future of Employment: How Susceptible are Jobs to Computerisation?' p.38. Available at: http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf

12 BIS Statistical Release (October 2013) 'Business Population Estimates for the UK and Regions 2013' p.5. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf

13 ONS (June 2014) 'Public Sector Employment Q1 2014' Available at: <http://www.ons.gov.uk/ons/rel/pse/public-sector-employment/q1-2014/stb-pse-2014-q1.html>

Within the private sector workforce roughly equal proportions are employed by SMEs and large employers, and as highlighted by Lord Young, the proportion of individuals working and running micro businesses has grown to around a third of those employed in the private sector.¹⁴ Microenterprise, shared services, and networked and collaborative working models are part of everyday working for many.

Flexibility and changing employee-employer relationships

Behind the proliferation of non-employing businesses there has been a significant increase in self-employment, particularly since the recession. There are now 4.5 million people registered as self-employed, around 15% of the workforce.¹⁵ The self-employed are more likely to be over 50 (42%) than regular employees. Although, women only make up 30% of the self-employed workforce their numbers have risen greatly since 2005.

With regard to the industry and occupational profile of the self-employed, there has been relatively little change, with self-employment growing proportionately with general employment trends. There has been an expansion of self-employment in the professions, a contraction in the skilled trades, and a rise in self-employment in public administration as austerity bites.

The majority of the self-employed do not view themselves as entrepreneurs, and there is noticeably less enthusiasm for the status amongst the newly self-employed and those with lower skillsets. While the growth of self-employment accelerated massively with the recession, this rise does seem to be a structural change beginning in the early 2000s, which looks set to continue, but at a slower pace.

This trend is part of a wider shift towards a more flexible labour market. Both freelance working and the use of zero-hours contracts have increased recently, indicating greater flexibility at either end of the labour market. For freelancers, tending to possess middle to higher level skills, flexibility may represent a positive lifestyle choice. However, for the 1.4 million workers estimated to be on zero-hours contracts, who tend to be younger and less well-educated than other employees, this flexibility may not be out of choice.

Increased flexibility is apparent across the entire labour market, including in the way in which people work as well as the way in which they are employed. Although the majority of the working population continues to work full-time, all employees now have the legal right to request flexible working. Technology is also having an impact here: there are now record numbers of people in employment working from home, around 4.2 million people, and while working hours have declined since the 1990s, the intensity of work has increased.^{16, 17} Flexi- and home-workers, on the other hand, report working longer hours than regular employees.

14 Lord Young (May 2013) 'Growing Your Business: a report on growing micro business' p.3. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/198165/growing-your-business-lord-young.pdf

15 Inquiry evidence: the following figures are based on research by the Resolution Foundation.

16 ONS (June 2014) 'The Characteristics of Home Workers, 2014'. Available at: <http://www.ons.gov.uk/ons/rel/lmac/characteristics-of-home-workers/2014/rpt-home-workers.html#tab-Characteristics-of-home-workers-in-the-UK>

17 LLAKES: Skills and Employment Survey (May 2013) 'Work Intensification in Britain'. All publications available at: <http://www.cardiff.ac.uk/socsi/ses2012/>

Education and training

Alongside the changing labour market there have also been significant shifts in the skills profile of the workforce and the ways in which learners and workers are educated, prepared and trained.

A better qualified workforce

There is now far greater participation in non-compulsory forms of education and the participation age is rising to 18. There has been a significant expansion of workers with mid- to higher-level qualifications and the proportion of people between the ages of 20 and 60 with no qualifications has shrunk to 1.5 million, the lowest it has ever been.¹⁸

A key feature of this development has been the expansion of higher education. There are now twice as many entrants to HE than there were two decades ago. Much of the growth here has been enrolment on 3-year full-time degrees, while HNDs, HNCs and all undergraduate courses other than first degrees have experienced major falls along with part-time study.¹⁹ Whereas graduates only made up 17% of the population in 1992, they now account for 38% of the population.²⁰ The workforce is now better qualified than ever, and this upskilling of the workforce has also been reflected in the qualification requirements of jobs, which have also risen over the past quarter of a century.²¹

Skills mismatches

While there has been growing demand for higher skills across the economy, skills supply and demand have not always aligned neatly together. Skills shortage vacancies at various levels of the labour market and in specific industries, such as skilled trade occupations and professional roles in manufacturing, have been well-documented and highlighted as national priorities.

The UKCES National Employers Skills Survey also highlights further misalignment of skills supply and demand that impact upon a greater proportion of employers than skills shortage vacancies.²² The 2013 survey records 15% of employers as having some staff whose skills were insufficient for the work they were doing, while 48% reported having employees who were both over-qualified for their jobs and under-used at work. This equates to around 4.2 million workers. Among these over-qualification rates are highest amongst: the young (20-24 year olds), part-timers, white workers, and those working in hotels, restaurants, retail, and other services such as arts, entertainment and recreation.

While there is some evidence to suggest that employers are beginning to make more effective use of qualifications, over-qualification rates in the UK remain well above the average for OECD nations.^{23, 24}

18 A. Felstead and F. Green (June 2013) 'Skills in Focus; Underutilisation, overqualification and skills mismatch: patterns and trends' p.23.

19 HEFCE (April 2014) 'Higher Education in England 2014' pp.4. and 11. Available at: http://www.hefce.ac.uk/media/hefce/content/heinengland/2014report/HEinEngland_2014.pdf

20 ONS (November 2013) 'Graduates in the UK Labour Market' Available at: <http://www.ons.gov.uk/ons/rel/lmac/graduates-in-the-labour-market/2013/rpt--graduates-in-the-uk-labour-market-2013.html#tab=Graduates-in-the-UK-labour-market-2013>

21 LLAKES: Skills and Employment Survey (April 2013) 'Skills at Work in Britain'

22 UKCES (January 2014) 'UK Commission's Employer Skills Survey 2013'

23 LLAKES: Skills and Employment Survey (April 2013) 'Skills at Work in Britain'

24 OECD (November 2013) 'OECD Skills Outlook 2013' p.171. Available at: http://skills.oecd.org/OECD_Skills_Outlook_2013.pdf

The return of apprenticeships

Over recent years, a combination of concerns over skills shortages, over-qualification, growing youth unemployment and a proliferation of qualifications has given rise to increased scepticism around the value of qualifications to individuals and employers. Partly in response to fears over the quality and relevance of many qualifications to employment, the Coalition Government has made the promotion of apprenticeships a flagship policy.

This has resulted in an increase in apprenticeship starts of 82% between 2009/10 and 2011/12 and the past two academic years have seen over half a million apprenticeship starts each.²⁵ The majority of people starting apprenticeships choose frameworks in the service sectors, such as business administration and retail. However, the majority of starts have been at intermediate level (Level 2) and in 2012/13 45% of starters were over 25, although recent provisional figures suggest that the number +24 apprenticeship starts fell significantly in 2013/14.²⁶

The Government is set to increase the BIS apprenticeship budget to £770 million for the year 2014-15, and has committed to delivering an extra 20,000 Higher apprenticeships by 2015. In contrast, the total adult skills budget will fall from £2.4 billion to £2 billion between 2014 and 2016.²⁷

A decline in training

The focus on apprenticeships is an acknowledgement that often much of the best vocational learning happens in the workplace. It must be recognised that the vast majority of skills training occurs on the job and does not necessarily lead to a qualification. However, research and analysis of various surveys suggests that training rates are in long term decline. The *Quarterly Labour Force Survey* (QLFS) provides an insight into workers participation rates in training and suggests a decline in training after a peak in the early 2000s. This trend is corroborated in the *British Household Panel Survey*.

As well as participation rates decreasing, so too is the average duration of training. The QLFS surveys show that the proportions of employees whose most recent training episode had lasted less than a week had risen from a third in the mid-1990s to a half by 2010. At the same time, the share of employees reporting to have taken part in 'off the job' training, which tends to be longer in duration, has fallen steadily since the mid-1990s.²⁸ Taken as a volume measure, between 1995 and 2012 some have estimated that there has been a 44% drop in training.²⁹

While this figure is an aggregate and should be treated with caution, especially as employers report they are training 'smarter' and getting better value, it is worthy of

25 House of Commons Library (February 2014) 'Apprenticeship Statistics' p.3. Available at: <http://www.parliament.uk/business/publications/research/briefing-papers/SN06113/apprenticeship-statistics>

26 BIS, SFA (October 2014) 'Statistical First Release: Further Education and Skills'. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/364219/learner-participation-outcomes-and-level-of-highest-qualification-release-oct14.pdf

27 BIS, SFA (March 2014) 'Skills Funding Statement' p.26. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/278529/bis-14-p172a-skills-funding-statement-2013-2016.pdf

28 LLAKES (September 2013) 'What Has Been Happening to the Training of Workers in Britain?' p.12. Available at: <http://www.llakes.org/wp-content/uploads/2013/12/43.-Green-et-al.pdf>

29 Ibid. p.13.

consideration particularly as there is no evidence of a recession effect on incidences of training and across this period there was an increase in mandatory health and safety training. Groups which experienced the largest declines in training over this period appear to be those in lower skilled jobs, the under 25s, part-time workers, and men.³⁰

The Skills and Employment Survey of 2012, sheds further light on training patterns between 2006 and 2012.³¹ It notes a decline in the volume of training and a decrease in the proportions of workers engaged in long training (over 10 days of training or more annually) from 38% to 34%, between 2006 and 2012. Estimates based on this survey suggest the average number of days of training has fallen by a third, and that female workers have been particularly affected by the reduction in 'long training'. While employers are training smarter and more efficiently, fewer people appear satisfied with the training they receive, and there is rising demand by workers at all levels to receive workplace training.

30 Ibid. p.21.

31 LLAKES: Skills and Employment Survey (March 2013) 'Training in Britain'

Demographic and social changes

Young people

The age profile of the workforce has risen as young people join the labour force later and retention of over-65s has risen rapidly in recent years.

At the younger end of the labour market, there are difficulties with transitions between education and work, and concerns around the employability of education leavers. While the readiness of education leavers for work appears to be an issue for employers recruiting school leavers at 16, employers' negative experiences of employing young people particularly out of college and university have been overstated.³² Rather, there appears to be a longer term trend in the structure of the economy reducing opportunities in the traditional youth labour market.³³

Since the early 2000s youth unemployment in the UK has been rising. Young people feature more than any age group in the underemployed.³⁴ There are also growing concerns over young people outside of employment or education (NEETs in recent discourse), particularly as the numbers of the long-term unemployed are growing and the high individual and social costs associated with disengagement from the labour market.

This detrimental structural shift appears to have been accelerated by the recession and subsequent recovery. In comparing employment rates for young people before and after the recession, the employment rates for 16-17 year olds and 18-24 year olds have fallen respectively by 13% and 6%.³⁵

The balance in occupations over this period has not favoured young people either. While the share of jobs in sales and elementary roles – the positions where young people tend to find employment – have contracted, the type of occupations best suited to more experienced and skilled workers have expanded their share of the market. As a result, young people in recent times have found themselves in an increasingly competitive job market, often competing against older and more experienced workers for lower and mid-level jobs.

In this context, it appears that the main obstacle to young people securing employment is competition against more experienced workers in the market place rather than perceptions that young applicants lack the capability to perform in the job role.³⁶ Indeed, employers not recruiting young people cite a lack of experience as their main concern. Against this, it is interesting to note that the share of young people in full-time education with a part-time job has been declining for around 15 years. This trend is especially pronounced for 16 and 17 year olds still in school or college: the proportions of those with a job has fallen from 39% in 1992 to 20% in 2012.³⁷

32 UKCES (January 2013) 'UK Commission's Employer Skills Survey 2013: UK Results' p.112.

33 UKCES (March 2013) 'Scaling the Youth Unemployment Challenge' p.8. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305806/scaling-the-youth-employment-challenge-report.pdf

34 ONS (November 2012) 'Underemployed Workers in the UK 2012' Available at: <http://www.ons.gov.uk/ons/rel/lmac/underemployed-workers-in-the-uk/2012/video-summary.html>

35 UKCES (March 2013) 'Scaling the Youth Unemployment Challenge' p.7.

36 UKCES (January 2013) 'UK Commission's Employer Skills Survey 2013: UK Results' p.112.

37 UKCES (March 2013) 'Scaling the Youth Unemployment Challenge' p.12.

Older workers

Real retirement ages have risen since the millennium and the state pension age has been raised to 65 as a result of improving life expectancy. The extended working life is now a reality for many, and over the next decade the working population over 65 is expected to increase by a third.³⁸ While there are many social, economic and individual benefits to extended working lives, there will be significant challenges around occupational health and retraining.

For example, those that leave the lower end of the labour market for retirement in their 50s due to health reasons may need new structures of support to find new types of employment, particularly if they have had long careers in one sector or occupation. At present, very few people who retire early return to work. Additionally, many older people now find themselves acting as carers for children, grandchildren and parents – the ‘sandwich generation’ – and will therefore require more flexible working patterns.

Further challenges and opportunities will also arise as the ‘Baby Boomer’ generation begin to retire over the next decade. The UKCES Working Futures report suggests we are in danger of running out of labour as there will be a significant loss of workers from the labour market due to retirement. With only seven million people coming out of the education system and 12 million set to retire over the next ten years there could be a shortage of around five million people. As such, replacement labour demand is much larger than growth demand (approximately eight times larger), and is likely lead to skills shortages even in occupations that are set to shrink - administrators, skilled tradesmen, and particularly roles in nuclear manufacturing.

Gender disparity in education and employment

The female workforce has grown substantially over recent decades, and women now make up a record proportion of the workforce.³⁹ Similarly, participation rates of women in education have increased, and women now outnumber men across post-compulsory education institutions. Women also appear to build more on their human capital after education by continuing to take part in vocational training. These increased levels of engagement have also seen women and girls begin to outperform men and boys in all levels of education and almost in every subject except mathematics, engineering and philosophy.

This trend has been apparent across all OECD countries but interestingly this success has not been reflected in outcomes in the labour market. In the case of graduates, female graduates were twice as likely to be employed in jobs categorised as low or lower to middle skilled, than their male counterparts and higher proportions of the male labour force work in high skilled and upper middle skilled roles.⁴⁰

This is reflected in the pay differential between men and women which stands at 10% more for men in full-time work and rises to 20% when Britain’s 8.2 million part-time

38 Inquiry evidence.

39 ONS Labour Market Statistics (May 2014) p.3. Available at: http://www.ons.gov.uk/ons/dcp171778_361188.pdf

40 ONS (November 2013) ‘Graduates in the UK Labour Market 2013’. Available at: <http://www.ons.gov.uk/ons/rel/llmac/graduates-in-the-labour-market/2013/rpt--graduates-in-the-uk-labour-market-2013.html#tab-Graduates-in-the-UK-labour-market-2013>

workers are factored in (women outnumber men by 6:1 in this category). It should also be noted that pay differentials rise with age, suggesting that barriers to women in the labour market should be construed more as 'leaky pipelines' rather than 'glass ceilings'. While the pay gap has reduced slightly for full-time workers there is little sign of it closing for part-time workers. This discrepancy between educational achievement and outcomes in the labour market, coined the 'Paula Principle' by Professor Thomas Schuller, is likely to require further interventions.

Implications for the skills system

The changes outlined in Part One have significant implications for all players in the skills system; whether they be learners, workers, employers, education and training providers, or policy makers. In the course of investigating the changing structures of work the Commission has identified nine key implications for the skills system to respond to. These should be seen in equal measure as challenges to rise to and opportunities to grasp.

1. Polarisation and the hourglass labour market

Today's labour market is increasingly polarised between a base of low-waged jobs and an expanding strata of professionalised occupations at the top. This is often described as the 'hourglass' and some have even described the market as segmented and segregated. Projections based on current trends assert that this structure is likely to be with us for the foreseeable future and may even become more pronounced.

It is therefore of upmost importance that adequate thought and attention is paid to how individuals are prepared for this environment which increasingly values knowledge, creativity and social perceptiveness, as roles involving routine tasks are offshored or automated. For workers operating in a competitive two-tiered labour market, it is vital that the skills system works together to provide individuals with clear routes of progression through the middle.

2. Increased flexibility

The UK has one of the most flexible labour markets in the world and this flexibility is a feature of both the way in which we work and how we are employed. Technology has enabled networked firms to adapt quickly to changing circumstances and encouraged remote working, with 14% of workers now estimated to work from home. Non-traditional forms of working such as self-employment, freelancing, and zero-hours contracts have increased, representing a structural change in the economy rather than a reaction to recession.

While those at the top of the labour market may embrace greater flexibility as a positive lifestyle choice, there remain issues around training and skills development for the freelance community, part-timers and the 1.4 million workers estimated to be on zero-hours contracts, two-thirds of which are believed to be in this situation for the long-term.⁴¹ Beyond creating training schemes that fit round the needs of those working flexibly and incentives to ensure the skills needs of these people are being catered for, education and training providers will also need to consider how best to prepare people for operating in a flexible labour market.

3. Entry and progression in the labour market

Individuals now enter the labour market later, and transition from education to the workplace proves difficult for many. A combination of long-term changes in the labour market and the 'bump down' of more skilled workers during the recession have limited entry level opportunities giving rise to high levels of youth unemployment. A higher proportion of 18-24 year olds are now in unskilled work than were twenty years ago.⁴²

The expansion of higher education and the professions have created new opportunities for entrants into the labour market, but this has also brought new challenges. In competitive areas, and in many growth industries, that lack structured pathways into employment, aspirants may find themselves engaged in 'extended entry tournaments' to get their foot in the door, proving their worth and commitment through internships and voluntary projects.⁴³ While internships and other such training equivalents afford flexibility, personalisation and an opportunity to build networks and experience different types of work, these routes are characterised by ambiguity, a lack of clear landmarks, and even exploitation in the worst cases.

Progression within the labour market has changed dramatically. The decline of occupational and firm-based labour markets has eroded structured routes through vocations and firms while the trend towards smaller networked organisations, which lack the scale and permanency of larger employers, presents a challenge to skills development. The fast-tracking of graduates into managerial positions has also further limited opportunities of progression through organisations from bottom to top.⁴⁴ For those working in low-paid jobs the harsh reality is that it is very difficult to progress and move out of them. Routes of progression must be strengthened across the labour market.

4. Increased individual responsibility for training

A competitive labour market, better networked organisations and the growth of non-traditional forms of employment is changing the relationship between employer and employee, particularly with regard to training. Freelancers, the self-employed, and those on zero-hours contracts receive lower levels of training than their full-time counterparts and there is evidence to suggest that in-work training has been in long-term decline since 2001. Cuts to the public sector and the movement of much public service delivery into the private sector are also likely to continue this trend. In this context, the individual is having to take greater responsibility for their own training. Whether this has been fully appreciated across the workforce and industries remains to be seen.

42 Inquiry evidence

43 Inquiry evidence

44 Inquiry evidence

5. Broad-occupational and transferable skills

Today the notion of ‘a job for life’ or progression onwards and upwards through a single sector appears outdated. The idea of a ‘portfolio career’ is attractive to many younger people, and the extension of the working life will see people choosing to begin second and third careers across their working lives. These changing attitudes, together with the reality of greater job insecurity and the downsides of fast-paced technological change, enhance the importance of developing broad-based transferable and enterprising skills. Without these adaptable skills, individuals who have overspecialised in a specific technological skillset will be in a vulnerable position if there are disruptions to their industries.

6. Class and social mobility

The restructuring of the economy has led to the loss of much ‘blue collar’ employment that formerly provided opportunities for unskilled labour, routes of progression for skilled workers, and distinct social and personal identities. However, as the labour market has changed it appears that the job preferences of non-graduates have not, and many are pursuing opportunities in dwindling markets and low-paid sectors.

In a more competitive job market, knowledge, adaptability, cultural capital and networks count, and given the importance of family and peer influence on post-16 destinations, inequalities in both aspirations and life chances are created early.⁴⁵ In addition to this it can be argued that social mobility is further hampered by the ‘extended entry tournaments’ that now pervade some sectors. If entry into well-paid or high-status jobs requires aspirants to fund their own training or endure prolonged periods of working for little or no pay, those with parental support often have a decisive advantage.

7. Gender disparities in the labour market

2014 has seen the highest employment rate for women on record. However, despite outperforming males in education the expected returns from this trend have not materialised for women in the labour market. Women are around six times more likely to work part-time and while this reflects positive choices in many cases, the downside of part-time work is that career progression is harder and the gender pay-gap is around 20%.

The workforce remains gendered with low-paid jobs in the five ‘Cs’ – caring, catering, cashiering, cleaning and clerical work – still attracting a greater proportion of women. Again, opportunities for progression in these sectors is limited, and changes to the public

45 The Centre for Analysis of Youth Transitions (May 2013) ‘Influences on post-16 participation’. Available at: <http://www.natcen.ac.uk/media/123373/influences-on-post-16-participation.pdf>

sector, in which a greater proportion of women to men are employed, are likely to have negative effect on female participation rates in training. It is predicted that there will be even greater divergence in the female labour market over the next ten years.

8. Extended working lives

Even with the raising of the state pension age, record numbers of women in work, and high levels of immigration, a labour shortfall is predicted over the next ten years as the 'baby boomers' retire. Because of this, and the rising old-age dependency ratio (currently 3:10) individuals are having to work longer. The Government, employers and skills providers must encourage older workers to stay in employment, utilise their skills and experience better, and keep their skills up-to-date. Recent reductions in older workers' participation rates in training and education, and cuts to the adult skills budget are therefore a worrying development.

9. Outdated labels, language and perceptions

The vocabulary and assumptions that frame debate and underpin policy at every level is yet to catch up with the reality of today's complicated and evolving labour market. Funding and course provision is often based on an understanding of models of full-time employment, upwards progression and retirement at 65. The skills development of part-time employees and older workers is not taken as seriously as it ought to be. The training needs of self-employed, freelance and zero-hours workers are not reflected in policy.

Furthermore, accurate knowledge of the labour market is undermined by crude definitions that lump diverse groups and concepts together: 'part-time workers', for example, range from those who work eight hours a week to those working up to 30. Similarly, terms such as SME, self-employment and productivity often group together a wide range of organisations, relationships and outcomes which bear little relationship to reality. There is also little data on the over-65s in the workforce.

Tuning the skills system to work

In Parts One and Two of this report, we presented our analysis of the changing structures of work and their ramifications to leading figures and organisations across the skills system, including employers, small and large; skills providers, both colleges and private training providers; and representatives of learners, workers and different sectors of the economy.

Through these discussions we sought to investigate whether the changes to the structures of work were being reflected in skills provision and policy, and assess the extent to which the system is keeping up with a fast changing world.

We conclude that there is much to be done to ensure that the UK skills system remains fit for purpose in a changing world.

In this section, we examine component parts of the skills system in turn and highlight where there is mismatch between provision and the changing structures of work.

We recognise that owing to time and resource constraints not all parts of the skills system are analysed here. We urge other players not given as much attention here – including universities, professional bodies, trade associations, chambers of commerce, etc – to undertake a similar exercise, utilising our analysis of the changing labour market.

Colleges

FE colleges have been described as the adaptive layer of the education sector, and if colleges are to survive the upcoming funding challenges whilst meeting the skills needs of individuals and the economy in a rapidly changing world, that adaptability will be essential.

In reflecting demographic and labour market change onto the sector, the Commission is concerned about the declining opportunities for adult learning. While training appears to be in decline especially for older workers in the workforce, colleges have also become increasingly focused on catering to the training needs of young people. Between 2007 and 2012 the proportion of people over 55 in FE fell from 21% to 8%, and commentators have voiced concerns that the changing ‘feel’ of some colleges could be off-putting to adult learners.⁴⁶

Given that the average retirement age is rising, as a result of both Government policy and individual choice, new training needs are emerging. Workers in physically demanding or stressful roles, and those wishing to embark on second, third, or even fourth careers will increasingly need to update their skills or equip themselves with new ones. Similarly, workers of all ages will need to increasingly renew their skills as technology changes. In a more flexible labour market it is important that colleges cater to the needs of employers with age-diverse workforces and adults, as well as young people about to enter work.

As the increasing rate of technological development subjects both the labour market and workplace to disruptive change it is essential that FE keeps pace. The same innovations that techno-pessimists blame for job losses are creating new opportunities requiring new skills and expertise. Our 2011 report *Technicians and Progression* highlighted the growing importance of technicians to the economy particularly because of their ability to work across traditional occupational dichotomies, and it is important that colleges equip young people with the cross-sectoral skills that will enable them to enter emerging industries.⁴⁷

The recent NEF *Inventing the Future* report on securing a strong base for the UK’s STEM based industries raised some significant concerns around the preparedness of education and training sector to meet the needs of emerging industries.⁴⁸ How the FE sector combines meeting the needs of evolving and increasingly specialised growth industries, alongside those of local employers, is a fundamental challenge for the sector.

Employers we spoke to accepted that while FE is not able to cater for the specific needs of every industry, they wanted the system to produce agile problem solvers. Overall, greater collaboration between colleges, training providers, businesses and universities

46 Inquiry evidence

47 Skills Commission (October 2011) ‘Technicians and Progression’ p.16. Available at: http://www.policyconnect.org.uk/sc/sites/site_sc/files/report/347/fieldreportdownload/techniciansandprogression.pdf

48 NEF The Innovation Institute (July 2014) ‘Inventing the Future; Transforming STEM Economies’. Available at: <http://www.thenef.org.uk/report/inventingthefuture/Inventing-the-future-final.pdf>

will be crucial in enabling colleges to keep up with the changing pace of technology and ensuring that employers are able to source the skilled workers they need. Such partnerships could provide the base for specialised centres and opportunities for encouraging dual professionalism in staff.

With regard to meeting local labour market needs, the UKCES *Employer Perspective Survey* suggests there is scope for colleges to better serve the training needs of their local economy and also create new revenue streams. While colleges are reported as one of the most commonly used sources of information, advice and practical help by employers, a much smaller proportion of employers report sourcing external training from colleges.⁴⁹ The most common reason cited for not using FE colleges for external training was the perceived relevance of courses.

Thinking creatively about provision, developing flexible programmes with elements of personalisation and looking to successful aspects of MOOCs could also help ensure the relevance of colleges to learners and employers. In addition more colleges should look to the example of university alumni networks to see what could be adopted in FE. At their best alumni networks can encourage a culture of giving towards educational institutions, provide a base for fundraising and investment, and can tap into reserves of social capital.

Over the course of this inquiry the Skills Commission also heard concerns that parts of the sector have not yet come to terms with the implications of continuing austerity, and it has been suggested to us that many colleges need to be much more proactive in identifying potential revenue streams, working with employers to establish training programmes and courses.

It is clear that both the Government and Opposition are ambitious for colleges, with the first group of National Colleges soon to be selected by BIS. More ominously, however, there are signs that further public spending restraint may necessitate colleges to significantly change their business and delivery models. The FE Commissioner has already issued a stern warning to the sector on the dangers of financial complacency, and the recent BIS *College Governance: A Guide* reminds the sector that 'there is no legal entitlement to grant funded provision'.^{50, 51}

With this in mind, the Skills Commission cannot emphasise enough the importance of diversifying college income sources.

While the Commission encourages the sector to be bold and innovative in adapting provision and achieving greater financial sustainability, we recognise that changing the income streams of colleges represents a major sectoral culture shift for learners and employers, as much as for colleges. With regards to individuals, advanced learning loans are still in their early days and are yet to be fully assessed. For employers,

49 UKCES (December 2012) 'Employer Perspectives Survey 2012' p.45. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/303156/evidence-report-64-executive-summary.pdf

50 The FE Commissioner's letter is available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319424/further-education-commissioner-letter-june_2014.pdf

51 BIS (August 2014) 'College Governance: A Guide' p.6. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/344615/BIS-14-1012-college-governance-a-guide.pdf p.6.

providing greater contributions towards provision that was previously funded or subsidised through the tax system may take a while to be established as a norm.

There is a risk to capacity in the system if too much is cut too fast. If weaning colleges off grant funded provision is the Government's intention, we recommend a phased approach that gives the sector the time and space to evolve.

Colleges are almost uniquely placed to deliver programmes aimed at cultivating broad transferable skillsets in their students and to act as hubs from which learners can be directed towards employment or further study. The value of colleges as social institutions should not be ignored.

In addition, the learner profile of FE colleges is more disadvantaged than that of other educational institutions, and colleges already receive the lowest educational funding rates, compared with higher education and schools. Undermining the capacity of the sector may not just threaten the ability of colleges to ensure their financial sustainability and relevance to learners and employers in the contemporary labour market, but may also negatively impact upon rates of social mobility.

Independent training providers

Independent training providers include a wide variety of organisations of varying sizes, encompassing both private and non-profit companies dedicated to servicing a range of public and commercial training needs. As such, provision ranges from CPD, management coaching and bespoke training solutions through to publicly-funded programmes, including the delivering around 75% of all apprenticeships and around 90% of Work Programme contracts.

The providers and representatives of the independent sector we spoke to emphasised the nature of their varying business models and governance arrangements in ensuring their provision is adaptable and aligns to the changing structures of work. An organisational culture centred on the needs of employers is driven through a clear and focused mission, and commercial necessity. Employer ownership, strong partnerships, close analysis of labour market intelligence, and maintaining active salesforce teams are all important facets in delivering forward-looking training in the independent sector.

This demand-led approach requires providers to be agile and adaptable in their operations and offer a range of cost effective and innovative, training options that suit the needs of employers, including non-accredited training and the flexible delivery of tailored course content. The growth of E-learning providers such as the Virtual College, now reaching some 1.4 million learners, is a testament to the appeal of flexible and customisable training to employers.⁵²

Training providers focusing on provision for growth industries – both local and national, or areas of the economy in which current or future skills shortages could limit growth and productivity – expressed their frustration with the apparent lack of interaction between labour market intelligence and the funding system. A situation that training providers, who are well attuned to the needs of local or specialised markets, maintain distorts the alignment of provision to demand.

Those delivering publicly-funded provision described their interactions with the funding agencies as merely contractual and based around compliance. As the SFA and EFA have no planning responsibilities, and while the variation in quality of Local Enterprise Partnerships (LEPs) across the country remains stark, the mechanisms for strategic dialogue between the local and the centre remains dysfunctional. In addition to this, retrospective funding arrangements, administrative challenges with working with two funding agencies and the difficulty in accessing capital funding, were all presented as barriers to scaling up successful provision and delivering programmes to meet future need.

The disconnect between local need and nationally set policy was also commented upon with regards to interactions between training providers and the DWP. Many felt that

DWP regions and the priorities of local Jobcentre Plus agencies were not sufficiently aligned to the local labour market. This lack of alignment is not just evident between the departmental and the local, but also appears between Government departments and is a serious barrier to delivering flexible provision to suit the needs of employers and individuals. Similarly, training providers outside of the public system offering very specialist programmes for people with multiple needs expressed frustration at the siloed nature of many departments.

For training providers operating in a competitive market, it is vital that the funding system does not serve to stifle innovation. There is currently a lack of coherence between local and national strategies, as well as policy instability that undermines long-term planning and workforce development. Unless this is addressed, the responsiveness and capacity of independent providers to meet the needs of key industries and local employers risks being undermined.

Schools

In our *One System, Many Pathways* report we argued that the '14-19' period of education and training constituted a major transitional phase in need of more coherent thinking and policy.⁵³ Much of what we have heard in the process of this inquiry has supported that view.

Schools occupy a critical place in the skills system. At the age of 14 the vast majority of learners are in schools preparing to make choices that will have an impact on the rest of their education and careers. The internal culture and the connectedness of these institutions to other education and training establishments, and the wider world of work itself, is therefore hugely important.

Many have cited the 'splendid isolation' of some schools from the wider skills system as a fundamental weakness of the English education system, and one that is particularly damaging to the prospects of young people.

Employers complained to us of schools unwilling to engage with their outreach work or more generally of schools upholding outdated notions of job roles and sectors. Given the specialised nature of much of England's post-16 curriculum, this has the potential to be detrimental not just to individuals, but even to whole industries if young people are put off from taking courses that feed into particular industry recruitment pathways. The classification of people into 'academic' or 'practical', and 'scientific' or 'arty' that occurs at school was also raised by employers we spoke to as particularly counter-productive, as many professions increasingly require employees with dual skills.

Similarly, the frustrations of FE colleges, apprenticeship providers, UTCs and sixth-form colleges, with some schools for failing to deliver impartial guidance to young people on their options have been well-documented. With a diversity of options and pathways, some now beginning at 14, it is vital that competition for learners is managed in a collaborative manner. Learners, and their guardians, must be fully informed of the range of institutions and pathways open to them.

Arguably, the narrowing of the gap between schools and the wider world of work has a role to play in improving social mobility and helping to tackle gender imbalances and inequality in the labour market. Improved networks between schools and the skills system providing meaningful work experience opportunities and insights into the contemporary workplace are vital in preparing young people for the realities of work in the 21st century.

The debate around the role of schools in preparing young people for work often becomes quickly polarised between those who feel schools are not there to provide 'cannon fodder for the labour market' and those who think schools are failing to meet

53 Skills Commission (November, 2013) '*One system, many pathways: forging consensus on 14-19 education and training*'. Available at: http://www.policyconnect.org.uk/sc/sites/site_sc/files/report/366/fieldreportdownload/skillscommission-onesystemmanypathwayspdf.pdf

the skills needs of individuals and the economy. The Skills Commission feels this is a false and unhelpful dichotomy. While there is certainly more scope for external involvement in the schools system, it should be said that much of the learning that occurs in schools already – opportunities for team working, project work, extra curricula activities etc. – should be given more attention for its relevance to work and life post-education.

To ensure that all schools are playing their part in a coherent and forward-looking skills system, the Skills Commission would like to reiterate some of the messages and recommendations called for in the *One System* report:

Recommendations from *One System, Many Pathways*:

- The Department for Education should recognise a 14-19 system.
- Employers and employer bodies should make a commitment to placing engagement in education and training at the top of their organisational agendas.
- The Department for Education should consider how to incentivise schools to engage with employers more systematically and work with the Department for Business, Innovation and Skills, and sector bodies to introduce 'associate governors' to support greater employer engagement in the education and training sector. They should also consider more programmes of 'two-way work experience'.
- The Department for Education should coordinate discussions with the Department for Business, Innovation and Skills and the Department for Communities and Local Government on how to empower local partnerships to monitor competition between providers at a local level and drive collaboration. Where appropriate, this could include the Local Enterprise Partnerships.

The Skills Commission is pleased to see that the concerns and recommendations we first raised before the 2010 Election regarding the quality of information, advice and guidance (IAG) in schools have been taken up by campaigners. However we acknowledge that at present there may well be capacity issues in delivering quality careers guidance to young people. The Commission thus awaits with interest further assessments of IAG at school level and to see if any political party enters the next Election with a clear commitment to improving and investing in IAG.

Qualifications and curriculum content

Qualifications and curriculum content have been hotly debated over recent years, and their relevance to work in a changing labour market was raised repeatedly by providers and employers we spoke to during the inquiry.

A combination of confusion and scepticism towards the value of qualifications – similar to those outlined in the Wolf Report – and the competitiveness of the job market has lessened the importance of qualifications in the eyes of employers. In many cases, recruiters report using qualifications as mere sifting tools before considering the work experience of candidates and other demonstrable examples of their skills.

Employers we spoke to told us that adaptability and fusion skills were increasingly valuable to them. They also voiced concerns that the curriculum was narrowing variety, limiting opportunities for practical work, and upholding unhelpful divisions between the academic, vocational, creative and scientific. Given contemporary management theory highlights the benefits of cognitively diverse teams, it is important that reforms to qualifications do not impose too restrictive an offer for young people.

Qualifications and qualification suites must reflect these changing attitudes. With the fluidity of today's labour market qualifications should equip learners with a broad range of skills and provide a base from which learners can move between pathways. Some have even argued for a broadening of the curriculum at A-level to ensure that a range of pathways remain open to learners and that female learners in particular are not directed away from following pathways involving mathematics and physics.

Dynamism must be instilled into all qualifications. Vocational courses, particularly those with strong technical elements, must be regularly accredited by employers or industry representatives to ensure their relevance as technology and working practices change. Where possible, awarding bodies should be given the freedom to develop flexible assessments. Online platforms could also be used to help learners create personalised portfolios through which their skills can be actively demonstrated to employers and updated.

While the Commission believes the changing realities of work require qualifications to adapt, it seems apparent that qualifications are not enough for young people in today's labour market. As such, this brings into question the focus on qualifications by policymakers wishing to influence outcomes in the system. Tinkering with qualifications is not the only lever to influence outcomes in the system, and qualifications alone are not enough to overcome the barriers to adequate skills provision in England.

There are many skills highly valued by employers in a competitive jobs market that are particularly difficult to assess and develop on a qualifications framework.

‘Employability’ and ‘soft’ skills including teamwork, communication, presentational, leadership, planning and decision making skills example all fit this category. In cases such as these, where qualifications alone, and reforms around them, cannot influence the outcomes employers and Government may wish to see, space needs to be created for this elsewhere in the curriculum.

Accepting this, vocational qualifications should seek to cover the occupational skills relevant to work in their particular industries, while the institutions they are delivered through should be supported to provide the learner with the transferable skills they will need in the labour market and clear routes to employment.

In light of the changing value of qualifications in the labour market and the upheaval associated with frequent qualification-based reform we feel it is important to encourage policymakers to reassess their reliance on using qualifications alone to effect change in the system.

Apprenticeships

The Coalition Government's commitment to increasing the uptake and improving the quality of apprenticeships has been a welcome development, particularly given the erosion of the traditional pathways into and through employment documented in Part One. Work-based learning structures that allow the individual to gain first-hand experience and a chance to learn new skills or progress in the workplace offer a valuable pathway into secure and sustainable employment.

Our conversations with employers and skills providers gave rise to a surprisingly unified vision of what an apprenticeship should look like when considering the future of work. However there still remain many unresolved questions about the apprenticeship brand, and concerns about the apparent direction of travel of current policies.

In a time of increased employer demand for 'on the job' experience, growing interest from the public in the apprenticeship route, and mounting uncertainty around the value of a university education, it is vital that policymakers get this essential element of the system right. Because of this, we are more proscriptive in our recommendations here than in other parts of this report.

Apprenticeships should offer breadth as well as depth. While intermediate and higher apprenticeships will by definition offer a greater degree of specialisation, it is important that apprentices are able to develop transferable skills and appropriate behaviours. With technology altering job roles and business delivery, individuals with the broadest skillsets will be best placed to create and take advantages of opportunities. Similarly, the value of professional networks was emphasised by many employers, and where appropriate, apprenticeships should offer apprentices the opportunity to begin to build up their professional networks beyond the workplace, making contact with other practitioners and professional bodies.

Apprenticeships should be seen as the development of an individual for a broad occupational area. As opposed to preparation for a specific job, with a specific employer, an apprenticeship should develop a skilled and competent worker equipped with the personal skills, work skills, technical hand skills and knowledge to operate within a business and sector. This consideration must be at the forefront of apprenticeship development. The changing structures of work mean that it is vital that new standards have relevance beyond the organisation or role that the apprentice starts in. PWC's higher apprenticeship frameworks are good examples of apprenticeships which combine specialist elements relevant for particular pathways, such as tax and audit, with a focus on transferable skills relevant across the financial services industry.

With the growth of microenterprise and the significant role of SMEs in the labour market, it is important that as further standards are developed, they are truly designed in partnership with all players in the relevant sector to ensure that apprenticeships will

be viable for businesses of all sizes. The development of the apprenticeship standard in the Craft Trailblazer is a good example of a process that involved employers, associations and self-employed makers and microbusinesses.

Flexibility is key. Employers and providers we spoke to suggested that employers wanted ownership of content and delivery but not necessarily of funding. While some employers may wish to own and develop every aspect of their apprenticeship, there are others who wish to engage but have limited time and resource. Many SMEs in particular would value the option of routing funding through a college or training provider. In addition it may be worth clarifying the circumstances in which the model could work on a part-time basis (for reasons of social inclusion, for example), or if there is merit in a self-employed approach for a wider range of occupations given the increase in outsourcing and freelancing.

Amongst the individuals and organisations we spoke to, who exactly apprenticeships should be for, and at what level they should be pitched, remain contested topics. The Commission is concerned that if these questions are not adequately addressed, the clamour for more apprenticeships from politicians may be in danger of creating a model that inadequately serves the needs of some and neglects the needs of others.

For example, there are tensions between a) ensuring the apprenticeship brand serves the specialist needs of high skilled STEM industries with skills shortages and ageing workforces, along with other professions, and b) calls for the rapid expansion of apprenticeships as routes for young people into employment. While requiring apprenticeships to last for two years and begin at Level 3 would aid us in meeting the first objective, this would clearly make significantly scaling up the model more difficult.

Equally important are the debates around limiting the apprenticeship brand to young people as recommended by IPPR and others. As discussed in Part One, we have a broken youth employment market but the extension of working life also requires us to think seriously about the training needs of an ageing workforce. NIACE surveys have shown that older workers tend to favour work-based training and if age restrictions are to be placed on apprenticeships then serious thought also needs to be given to routes for adults and older people wishing to update their skills and transfer to different sectors.

In respect of the above there are several clear agendas that our skills system needs to address. Apprenticeships and funding incentives can play a role in helping to tackle these issues. But, it should be questioned whether the model can meet all these needs simultaneously. Bridging our skills gaps, rebuilding the youth labour market, ensuring in-work progression, and meeting the needs of an ageing workforce, are issues of fundamental importance and must be taken seriously in their own right. Our skills policy must not actively discourage the provision of varied entry points and progression routes in favour of a one-size-fits all solution.

The Skills Commission ‘Mantra’ on apprenticeships

In reflecting our analysis of the changing structures of work onto apprenticeships we are keen to impress upon policy makers and all those involved in the design and delivery of apprenticeships the following points:

Broad skills:

Apprenticeships should offer the apprentice opportunities to develop broad and transferable skills around their specialism. The opportunity to build professional networks and an adaptable skillset will give the apprentice the best preparation for the labour market.

Flexibility:

Building flexibility into apprenticeships is vital to ensure that they work for individuals and employers. We call for:

- BIS to give SMEs the choice of how apprenticeship funding should be channelled, whether it be directly through the employer or handled by the provider or trusted partner.
- Greater clarity to be provided on whether an apprenticeship can be offered on a part-time basis.
- Consultation on whether a ‘self-employed’ apprenticeship model could work for a wider range of occupations and sectors.
- Open debate across the system on inspection and monitoring of quality in training and assessment.

Standards:

Contributors to the inquiry provided good examples of where apprenticeship standards were being developed in an inclusive way through industrial and social partnerships seeking to balance technical specialism alongside the apprenticeships’ suitability to a range of different roles. However, concerns were raised that such an approach is not uniform across the system and there is a danger of duplication and a proliferation of standards which could end up undermining public and employers’ confidence in apprenticeships. We call for:

- More coherence, consistency and coordination between the Trailblazers and Employer Ownership of Skills Pilot when it comes to the development of apprenticeship standards and national occupational standards.
- Standards to be developed inclusively; industrial and social partnerships should not forget the role of trade unions and the self-employed in certain industries when setting standards.

Access and the apprenticeship brand:

Apprenticeships currently offer a much-valued pathway for young and older people alike, and employers expressed to us their unease at calls to restrict apprenticeships to young people. The apprenticeship brand is not exclusively owned by Government, yet the Government in its choices has a great deal of influence over how the brand is perceived by employers and the public. BIS should therefore be wary of how it legislates, as its decisions are likely to affect the provision and perception of non-government funded apprenticeships.

It is clear that Government hopes apprenticeships will come to solve the problem of youth unemployment. Whilst this is a sensible approach, and incentives should exist for employers to take on apprentices below the age of 24, it should not be presumed without evidence that older individuals are in direct competition with young people for apprenticeship placements. Further research into the full range of policy options that could incentivise employers to take on young people would be advisable before any hasty or ill-informed policy decisions are made which could give rise to negative unintended consequences. Therefore:

- Apprenticeships should not be exclusively limited to young people, without an adequate alternative, work-based learning pathway for older workers, particularly those wishing to retrain.
- BIS should conduct further research into what incentivises employers to take on young people as apprentices and review the impact of current incentives.

Apprenticeships are not the only route:

While the apprenticeship model works well for many learners and employers, we are concerned that alternative vocational pathways are in danger of being eclipsed by the Government's focus on the apprenticeship route.

Employers we spoke to expressed their preference for a diversity of pathways to suit the different needs of the workplace and for those entering the workforce. For some this was due to capacity issues in their organisations or sectors, while for others a disinclination towards apprenticeships was due to a desire to professionalise their industries and overcome existing negative workplace cultures.

Similarly, training providers and colleges spoke of their frustrations with the limited funding currently available for successful non-apprenticeship vocational pathways. In realigning skills provision with demand, we must respect the diverse needs of employers and learners, and be careful not to limit other forms of existing and successful vocational provision with clear lines of sight to work.

Employers

Employer engagement

Over recent years, many initiatives have been devised to bring the education and training systems closer to employers. The Skills Commission welcomes this direction of travel as the significant labour market change experienced over recent decades makes employer engagement in the skills system more important than ever.

To ensure that policy and provision is firmly rooted in work, employers are central. Without employer engagement, the publicly-funded skills system cannot fulfil its primary purpose to facilitate the dissemination of skills which serve the needs of the economy, and enable individuals to progress into and through the labour market.

However, there are a considerable number of employers who do not wish to engage with government funded skills programmes. While some of these employers have their own high quality training programmes, this is unfortunately not the case across the board.

Given that there is some evidence to suggest that employers who are engaged in delivery of apprenticeships think more seriously about progression for the rest of their workforce, it is important that the Government makes every effort to engage all parts of the training market.⁵⁴ Listening to the concerns of employers, and understanding what might be putting them off government-backed programmes, is therefore vital if we are to engage hard to reach employers and strengthen our training system.

Our discussions with employers about their experiences of interacting with publicly-funded skills provision and government initiatives revealed several areas of concern. Notably there is a perception that the system is unnecessarily rigid, and too complicated.

In the first case, we were given examples of employers, particularly SMEs, who wished to take part in government programmes but lacked the capacity to manoeuvre through seemingly onerous bureaucratic processes. In some cases, this related to having to go through multiple funding channels during the procurement stage when a unified system could save time and ensure greater clarity. In others, it was the need to seek accreditation from different agencies when existing bodies and frameworks may have sufficed. For other employers, they felt they lacked the time and inclination to take complete ownership of funding when it came to apprenticeship payments. In these examples, rationalisation of the processes and greater choice on funding arrangements could clearly encourage greater numbers of employers into the training system.

Navigating the shifting sands and complexities of the system also appears an issue for many organisations. There are now multiple ways through which employers can

engage with the education and training systems. Employers are being encouraged to act as school and college governors, deliver outreach work, become active members of LEPs setting priorities and managing budgets, partner with UTCs, and provide work experience, traineeships and apprenticeships among other things.

While the Commission welcomes the plethora of opportunities for employers to engage, we are concerned that an appearance of incoherence and policy flux across the system may be putting employers off. This creates a risk that the enthusiasm and resources of employers may not be put to best use, and a real danger that a perception of fragmentation across the publicly-funded skills system could lead to employer disengagement.

Frustration with fragmentation in the system manifested itself in a number of different ways for the employers and sector representatives who provided evidence for the inquiry. For some, the drawing up of overlapping yet different standards between some of the industrial partnerships on the Employer Ownership of Skills Pilot and apprenticeship frameworks was creating confusion. With today's levels of mobility, geographically and across the labour market, it is vital that standards aim to be national and occupational as opposed to limited to a job role or the needs of a certain type of employer.

Fragmentation across the education system also presented issues for employers wishing to engage at school level. The removal of responsibility for careers advice and guidance from local authorities has left a vacuum in which employers are now left to interact with schools in isolation from one another. To ensure that employers' time and resources are used effectively, and opportunities are spread fairly and appropriately across the local educational landscape, localities should look to establish systems to broker work and educational partnerships. Well-signposted local hubs could also act as bases to create further opportunities for young people in employment.

In creating a responsive public skills system geared towards work the diversity of opportunities for employment must be acknowledged. Ease of use and flexibility must be designed into every interaction and process in the system to remove any barriers to engagement and ensure the sustained engagement of employers.

Employers in a system

As we have seen in Part One, changing business practices have altered relationships between employers and workers. The growing ambiguity around responsibilities for training risks exacerbating existing skills shortages and creating future ones.

To address this, we need to think collectively about the nation's skills needs. It is important that employers are able to locate themselves and their supply chains within a wider system. Conceptualising themselves in this way will help clarify

responsibilities, draw attention to gaps in the system, and present incentives for employers to invest in training.

A good example of where this has happened is in the film industry. Freelance, project-based work and self-employment are common in the creative sectors. To guarantee a strong base for the industry's future, a voluntary production levy, the Skills Investment Fund, was introduced and overseen by the sector skills council Creative Skillset. The fund enables new trainees to enter the industry in priority grades and provides specialist training for existing professionals. The scheme has recently been extended to support skills in high-end TV, animation, games and VFX with the Government providing co-investment.

While this particular model may not be suitable for all industries it demonstrates what can be achieved when employers come together and think about their interests within a wider context. Whether a national, geographical, or sector-based approach works best will depend upon the organisational cultures of different businesses and the nature of their work. Industrial partnerships, sector skills councils, professional and trade associations, trade unions, chambers of commerce, local authorities, City Deals and LEPs all have a role to play in identifying and closing gaps in the skills system.

The employers and industry representatives we spoke to were keen to stress that policy makers should acknowledge the diversity of approaches and their different strengths when setting policies. Local and sector skills programmes need to be complementary, and where existing partnerships and systems are successful, government policy should respect those arrangements.

Concerns were raised around the growing role of LEPs. The advantages of having strong employer led local bodies are evident but questions remain around how accountable LEPs are to the wider skills ecosystem. Will the full diversity of local businesses be represented? Will there be adequate attention paid to the training needs of flexible workers? How will LEPs interact with the agendas of industrial partnerships, sector skills councils and professional and trade associations? And what if LEPs set overly ambitious priorities which other players in the local system will be judged by?

Given the range in quality of LEPs across the country, we suggest a considered and open approach to encouraging greater 'systems thinking'. The worst thing that could happen would be for channels of communication between employers and policy makers to be shut down and for parts of the system to disengage, as only one model for local employer engagement – the still emerging and variable LEPs – is granted Government support.

Beyond initiatives to directly engage employers with public skills provision and encouraging employers to think more systematically, more needs to be done to bolster the private training side and ensure that skills investment does not become a competitive disadvantage for employers.

In the process of this inquiry we uncovered areas where government needs to remove disincentives to training and areas where employers need to improve their management of skills and HR processes.

For example, providing training can be used by HMRC as ‘employment status’ evidence which may have further cost implications for companies that contract individuals on a freelance basis. This creates a disincentive for employers intending to include freelance and self-employed workers on training schemes, and can be used as an excuse for not training. With the UK’s labour market becoming more flexible such barriers to the training of self-employed workers must be dismantled.

Today’s labour market also requires greater attention to the management of skills in the workplace. With a multigenerational workforce, employers need to reconsider job roles and progression routes. As individuals are working longer, managers need to think about how this impacts on progression within the organisation, ensure middle-aged workers are not neglected when it comes to training, and develop ‘glide paths’ for older workers who wish to have a phased retirement.

Central Government

Policy tensions across Government are hindering parts of the system from keeping pace with developments in work. This idea of dissonance between different government departments in Whitehall was raised by contributors from across the system and represents a significant barrier to creating a coherent skills strategy.

For example, improving labour market retention rates after the age of 65 and discouraging premature retirement as a reaction to the financial and societal implications of demographic change have been priorities quite rightly picked up by the Department for Work and Pensions. However, this agenda does not seem to feature in the direction of policy from the Department for Business, Innovation and Skills. Despite training rates dropping off after the age of 45 and significant falls in the proportion of people over 55 in FE and HE, over the past seven years funding and incentives for adult training have been removed.

Given the unlikelihood of retirees returning to work and the costs associated with lost productivity and economic inactivity, encouraging training to enable people to work longer should be more of a priority for the skills system and the Government departments responsible. The fact that the Department for Business, Innovation and Skills is not mentioned once in *Fuller Working Lives*, the DWP's framework for action on encouraging extended working lives is indicative of the lack of join up on this fundamental issue.

The interaction between the Work Programme and skills policy within the Government's Industrial Strategy also remains unclear.⁵⁵ Training providers and colleges we spoke to articulated tensions they perceived between getting people into any job regardless of quality or duration, and the need to equip individuals with skills so they can secure sustainable employment. Issues around the system's inflexibility when it came to allowing claimants to partake in training were also raised. The example of the delay before the DWP exempted traineeships from the 16 hour maximum rule on study, training, and work experience was cited as a clear example of poorly managed communication between the Departments. Individuals experiencing long-term unemployment or cycles in and out of low-paid and insecure work will not be helped into secure employment without greater attempts to align the Skills and Work agendas together.

A further case of disconnect concerning the system's responsiveness to the new realities of work lies in the reluctance of the Department for Education to take seriously the importance of careers information, advice and guidance. Employers we spoke to expressed concern that poor careers guidance was limiting the size and diversity of the skilled labour pool. The youth labour market has fundamentally changed and young people, particularly from working class backgrounds are done a disservice by having

55 Available at: <https://www.gov.uk/government/policies/using-industrial-strategy-to-help-the-uk-economy-and-business-compete-and-grow>

to rely on a patchwork of guidance from friends, family and institutions ill-equipped to provide impartial or professional advice. As new opportunities arise in emerging sectors of the economy, young people and young women especially need to be aware of the full range of potential career pathways open to them.

Between the gaps in departmental briefs there are important issues requiring more joined-up thinking to enable the system to be more responsive to changing needs. The Government must seek to ensure that its actions do not inhibit organisations from providing training in any way. Funding agencies should adopt unified procurement systems where they can and BIS and HMRC need to re-examine clauses in the tax system that might discourage training, especially for the self-employed. Initiatives such as Universal Credit have lots of potential to provide individuals with incentives for developing their skills and it is likely that greater collaboration on these issues could lead to greater savings for the Exchequer in the long-term.

The Skills Commission

The Skills Commission is a group of leading experts and opinion formers from the education and skills sector that carries out research and makes recommendations for skills policy reform.

Recent inquiries have included *One System, Many Pathways*, looking at the 14-19 system of education and training, and *The Move to Improve* and *The Move to Improve 2*, a pair of reports on intervention and improvement in further education.

| | |
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Evidence session 2

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Evidence session 3

| | |
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Evidence session 4

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Evidence session 5

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Part of the evidence for this inquiry was gathered through a seminar series held by the All-Party Parliamentary Group for Skills and Employment entitled 'Skills for the Real Economy'. The Commission would like to thank the Group's Co-Chairs Nic Dakin MP and Fiona Bruce MP, alongside all those who attended and contributed to those seminars across 2014.

Seminar 1: Skills for a changing labour market

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| <u>Dr Carl Benedikt Frey</u> | <u>Oxford Martin Programme on the Impacts of Future Technology, University of Oxford</u> |
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Seminar 2: Enterprise

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| <u>Chris McLean</u> | <u>Deputy Principal at North Hertfordshire College, representing the Gazelle Group</u> |
| <u>Michael Mercieca</u> | <u>Chief Executive, Young Enterprise</u> |
| <u>Julie Pegg</u> | <u>HR Business Partner, Siemens</u> |
| <u>Lynn Sheppard</u> | <u>Director of Manchester Enterprise Centre (MEC), Manchester Business School</u> |

Seminar 3: Extended working lives

| | |
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| <u>Chris Ball</u> | <u>Chief Executive, The Age and Employment Network (TAEN)</u> |
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Acronyms

| | |
|--------------|-------------------------------------------------------------------|
| <u>BIS</u> | <u>Department for Business, Innovation and Skills</u> |
| <u>DWP</u> | <u>Department for Work and Pensions</u> |
| <u>CPD</u> | <u>Continuing Professional Development</u> |
| <u>DfE</u> | <u>Department for Education</u> |
| <u>EFA</u> | <u>Education Funding Agency</u> |
| <u>GDP</u> | <u>Gross Domestic Product</u> |
| <u>HMRC</u> | <u>Her Majesty's Revenue and Customs</u> |
| <u>HNCs</u> | <u>Higher National Certificates</u> |
| <u>HNDs</u> | <u>Higher National Diplomas</u> |
| <u>IAG</u> | <u>Information, Advice and Guidance</u> |
| <u>IPPR</u> | <u>Institute of Public Policy Research</u> |
| <u>LEP</u> | <u>Local Enterprise Partnership</u> |
| <u>MOOC</u> | <u>Mass Open Online Content</u> |
| <u>NEETs</u> | <u>Under 25s who is Not in Education, Employment or Training</u> |
| <u>NIACE</u> | <u>National Institute of Adult Continuing Education</u> |
| <u>OECD</u> | <u>The Organisation for Economic Co-operation and Development</u> |
| <u>ONS</u> | <u>Office for National Statistics</u> |
| <u>QLFS</u> | <u>Quarterly Labour Force Survey</u> |
| <u>SFA</u> | <u>Skills Funding Agency</u> |
| <u>SMEs</u> | <u>Small and Medium Enterprises</u> |
| <u>STEM</u> | <u>Science, Technology, Engineering and Mathematics</u> |
| <u>UKCES</u> | <u>The UK Commission for Skills and Employment</u> |
| <u>UTC</u> | <u>University Technical Colleges</u> |

Secretariat

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Sponsor

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